MASTER'S THESIS

On capitalism being compatible with modern ethics

Jonas Færgeman (jofa18ac)
Supervisor: Morten Sørensen Thaning
142.513 characters – equivalent to 62.64 pages

Jonas Færgeman
Student id: 124478

Content

Abstract

In this thesis, I examine the concepts of capitalism, utilitarianism, stakeholder theory as well as the meaning of purpose within business. I do this, because I want to figure out why businesses have such a bad reputation in our modern world. Businesses ought to create benefits for our society, if they fail to do so, it would be a massive loss to the wellbeing of our society. More so, it would mean we have fundamentally misunderstood the ethical potential within business.

Therefore, I go through different iterations of concepts closely aligned to ethical business, in order to become more aware of the apparent issues, before I ultimately use stakeholder theory in an attempt to consolidate the broken relationship between our interpretation of business, and their inherent purpose and reason for existence.

This paper is purely theoretical in nature, and its foundation is the method of philosophical investigation, with the field of operations being that of a socio-economic scale, with business in the epicentre.

Introduction

To me, there are no questions more interesting and important in business studies, than those regarding business and its relationship with ethics. Afterall, ethical understanding is what guides our world view and the political landscape. This is in addition to the effect of business on our world, and how it creates value and opportunities for us all. Surely, with such forceful powers in play, we cannot disregard their relationship. Therefore, I decided early on to make my thesis about business ethics. In the beginning, I wanted to have a very pragmatic approach; I wanted to be in contact with different businesses, all in different sizes, sectors, with different customer base and so on. However, it quickly dawned on me, that the questions which I inherently find the most important for a business to ask itself, namely why they exist, and not simply how they secure their continued existence, was a question which businesses very seldomly ask themselves. As a result hereof, I began to focus more and more on the cause of existence for a business and began to think about the role of a business within the society in general. Quickly, I realised that the idea of a business existing in order to do good in the society, is detached from the general opinion of commercial enterprise. Indeed, it seemed as if there were only two ways in which one could view business: either a business was nothing but an entity of pure self-interest with no regard to the everyday health and happiness of the average citizen of the society in which the business existed, or the other way round, a business was the way to lift people out of poverty, create jobs and wealth etc. Over time, it was increasingly apparent to me, that any mention of business ethics in academic books, took for granted, to different extend, that the system itself, within the business existed, was good – and not just good for business, but good, as in, moral goodness. The system in mention here, is of course capitalism.

I then read a book during the summer, called Conscious Capitalism by John Mackey, the founder of Whole Foods and many other incredibly successful companies. Reading this book, was to a certain degree reminiscent of reading a love-letter. The mistress here, being capitalism itself. I was confused, as there was a clear lacking attempt at an argument defending capitalism. It was given, so to say, that capitalism was the correct system to do business and society in. I decided to make this idea a centrepiece in my thesis, but not by going into Conscious Capitalism as a case study, but rather by examining the idea of capitalism in itself, in an honest attempt to understand why there seems to be such a quick and easy acceptance of this socio-economic system.

But I never forgot why I was interested in this theoretical approach to societal structure in the first place: ethical business was my main point of interest for my thesis. I decided to write a purely theoretical thesis, attempting to understand the meaning of capitalism and how it enables ethical business, if it even does. I also wanted to understand what hope there was for businesses to become ethical in themselves, without the mandate of the socio-economic structures governing them. Therefore, I decided to write about capitalism, ethics, and business purpose.

I quickly came to realise, that this would be a massive theoretical undertaking, and therefore I had to focus in on something more specific, in order to enable myself to make any points worth noting. I decided to focus on the purpose of business, and its power to ethically impact the society in which it exists.

However, even as focusing in on this, it was evident that trying to talk ethical business, you simply must spend time examining the surroundings of a business. It became clear to me that I would have to copy, to some degree, the mindset of a biologist examining a rare frog near a pond: examining the frog without understanding the pond and the vegetation around it, is forfeiting to understand the habitat which created the frog in the first place, thereby ultimately ruining the examination. Like the biologist, I had to understand the forces which enabled a business to conduct itself in the first place. Or rather, I had to understand the pond before making an attempt at understanding the frog.

To me, the pond was capitalism, the vegetation was ethics, and the frog was the business.

However poetic this may have sound, it essentially meant, that I had to spend time on each of these core concepts before making an attempt at analysing business ethics.

Overall, I see the circumstances as manifold; for as the world grows more dependent on each other and develop good co-operation, we see a rise of societal issues which affect us all. Thus, we should look at how, and in what environment, we seek to solve these issues, together.

Problem statement

This thesis is intended to clarify the relationship between capitalism, ethics and business by also respecting their individual mandate and definition. As such, I aim with this thesis to bridge the gap between the philosophical understanding of total morality, and efficient business conduct, within the contemporary setting of capitalism. Thus, my thesis is targeted towards the field of business administration and philosophy, with an emphasis on the philosophical approach, hopefully showing the value of such an endeavour, in the process. Therefore, in this paper, I shall attempt to answer the following question:

"Is capitalism compatible with an ethical system, and how does this reflect into business?"

I have decided to focus mainly on the philosophical approach to academic writing. I chose to do so, as it became increasingly clear to me, that there is no possible way to properly understand the purpose of business and the inherent value of ethical business, without also understanding the foundation of the environment which fosters business ethics in the first place. As a result, the only possible way of answering my problem statement is, to me, by analysing the concepts which create our understanding of business and the socio-economic system enabling them, which is inherently a philosophical approach. There would be little to gain, by finding a lot of real-life examples of businesses conducting according to regulations or implementing new behaviour to further an ethical approach. It is not my intention to showcase the effects of ethical business, but rather, whether there is a possible solution to unethical business behaviour, within either capitalism or business conduct themselves. To me, the theoretical approach also allows me to dig into the important details which economists and business lecturers often do not touch upon: the pond and the vegetation, before the frog. To sum up, I am of the opinion, that I can only engage with business ethics fairly, if I examine and analyse the concepts and their importance, which is often taken for granted within the world of business studies. The concepts I shall focus on mainly, are *capitalism, ownership, ethics, stakeholder theory* and *purpose.*

Choice of concepts

As with any analysis of a concepts, there is really no end to it; one can always dig deeper in the pursuit of fully understanding, but as I intend to only make use of the above-mentioned concepts to explore and answer my problem statement, the analysis will end as soon as I feel their usefulness has passed in regards to my problem statement. After the concepts-centred section of the thesis, I shall begin the discussion. In the discussion, there will be a significant focus on *stakeholder theory* and the pragmatics of it.
The issue with analysing and trying to understand the different concepts and theories, is that they often tend to have multiple definitions depending on the age it was defined, who defined it, what part of the academic world it was handled and so on. Because of this, I have to pre-determine my own subjective path into my analysis, or else I could spend my entire thesis, if not my entire academic career, talking about a single concept, as indeed many philosophers have. As such, I have decided to analyse concepts and theories to the extent of which they are of use to me in my attempt to answer my problem statement, and no further. The only exemption to this intent is if there is an obvious contradiction between different understandings of the concepts to such an extent that there is no way of making a clear definition for the purpose of this thesis. Overall, the intent is to spend sufficient time on each concept, without dwindling.

It is important to clarify, before delving into the topics of matter, that I use the words *business, firm* and *corporation* interchangeably unless otherwise specified. I regard business simply as an entity which is engaged in commercial trade and/or production. An NGO is also a business if it provides a service, even though this service leaves to no profit. The notion of profit is touched upon several times during the thesis, and as such will be addressed accordingly.
The theories I have chosen to use in this thesis, has been chosen because if their theoretical approach, and because they are very aware of the things they take for granted. For example, within *The Future of Capitalism* by Paul Collier, he addresses the issues of capitalism whilst simultaneously arguing for its use, if regulated properly. If any author is to make a positivistic statement, or a conclusion on an argument, without examining the meaning of the concepts they have used to make such a statement, we are ultimately unsure about the magnitude of such a statement – this is the issue which keeps arising within business papers, when they make an ethical claim. As a result, I have chosen very few theories to use in my thesis, and

even fewer theorists. I can, however, be certain that the work of these authors is coherent, in regard to conceptual analysis. Whenever there is an issue with a theory, whether it be that it is faulty from inception, or just poorly aligned with the intent of the thesis, these theories will be put under scrutiny, so that we make sure we are always on track to answer the problem statement. There are many concepts to examine, though, and as a result, some of them might seem silly to examine, as we might be of the impression that we fully comprehend them. While this might be the case, I shall argue, as I did earlier in this section, that no concept should be taken for granted, otherwise we fail in our attempt at understanding business ethics from the get-go.

One of such concepts is capitalism. When it comes to understanding capitalism, it can prove very difficult indeed, as there exist almost infinite variations of it, tailored to each economic understanding, business understanding or even ethical understanding. I choose to go 'modern', in the sense that my problem statement demands me to do so. Modern business resides in modern capitalism, or at least this is what we find to be intuitive to us. I shall examine if this is actually the case, in the first analysis segment of the thesis.
Before this segment, however, I shall briefly lay out and explain why I have chosen each concept, in the order which I have deemed makes the most chronological sense, from an analytical perspective:

- *Capitalism* is the first concept I shall analyse. I do this, because I believe that without spending an adequate amount of time on this concept, I would be ill equipped to say much of importance about business and business ethics. But even a single concept, like this one, has many iterations, mainly based on the historical perspective. As such, I shall analyse capitalism in three historical settings: *early capitalism, modern capitalism* and *contemporary capitalism*. This will allow me to examine further concepts, with a coherent capitalistic understanding in mind.

- *Ownership* is more important to comprehend than it might seem on the surface, but this is because with ownership comes *responsibility* only applicable to the owner. Responsibility suggests agency, thus the power to make ethical choices, and is therefore paramount to the understanding of acting morally, through business.

- *Ethics* makes up a significant importance to my problem statement. I chose to examine different ethical doctrines, namely those of *utilitarianism* and *deontology*, in order to understand which one is best suited for the version of capitalism I ended up deeming the most compatible with ethics on a socio-economic scale. Of course I would not be able to do so, without first understanding capitalism, and then examining ethics thoroughly afterwards.

- *Stakeholder theory* suggests an answer to several issues put forward throughout the thesis. For this, I intend to make use of Freeman as the main theorist. Stakeholder theory is essential to the discussion, as it lays forth a comprehensible, theoretic as well as pragmatic view on the ethical business. There is a lot of criticism towards the stakeholder theory, and in the discussion I shall showcase the critique I think its relevant for the approach I have taken on my analysis of stakeholder theory, which is the same approach I conduct throughout the thesis, with regards to my problem statement

- *Purpose* is the last concept to be analysed before the discussion. It can mean everything to one business, and very little to another. But purpose is present no matter what, and thereby requires understanding. Purpose in this thesis, shall be regarded as business purpose, exclusively.

The order in which these concepts will be laid out and examined, makes sense to me because the prior concept guides the intentional analytical approach to the following. Thus, the problem statement and intent of the thesis all guide the flow of the analytical segments, thereby creating a focus-lens, through which I can explain my specific interest in each concept. For example, if we are to read about ethics, we are essentially free to pick any direction we want, to guide our interest. Highlighting an interest to applied ethics, virtue ethics, metaethics etc. is all a valid thing to do, when reading such subject matter, but this is of no use when we have a predetermined focus, which is compatibility with capitalism. As such, the segment on ethics is grounded in the outcome of the segment on capitalism prior. This is the approach throughout the thesis, thus narrowing down over time, but making use of any information gathered along the way, as to avoid an unfulfilling conclusion in the end.

Business is at the epicentre of the thesis, but the centre can not be located without the parameters guiding us inward. Even before doing so, we are aware and feel capable of calling out the business as the centre, as long as we appreciate the limited understanding resulting from this approach. Now, I fully appreciate, that the idea of ethical business can sound weird; after all, many people, I presume, are willing to regard the conduct of big corporations and businesses as a necessary evil, as mentioned earlier, in order to sustain the capitalistic idea of the macroeconomy we feel we need. I, and many others, shall argue against this, but not necessarily to the point of critiquing capitalism in itself; there is room for expanding our understanding of capitalism. Indeed, the works of Adam Smith seem less and less satisfactory in our attempt to understand modern capitalism. Thus, I intend to analyse the concept of capitalism, as it seems paramount if we are to discuss anything *within* capitalism with businesses at its core.
Of course, capitalism is not the only social-economic system out there, but it is the system in which most of the world operate, and it is thus fair to assume that dissecting the ethics of business in a capitalistic society will have the biggest effect on our understanding of ethical

business. Socialism, while being an interesting counter to the capitalistic society, is currently an ideological idea more-so than something we see and measure business in. I shall briefly touch upon this in more detail when I get to the appropriate part within the section, of capitalism.

Capitalism

When Adam Smith wrote *The Wealth of Nations* back in 1776, the world of business, politics and economics were obviously very different to what they are today. While the transactional nature of business has not changed, the role of a business within its society has changed significantly. I shall speak on the roles of business in the section on purpose, later in the thesis.

The two biggest differences, as I see them, between the definition of capitalism then and now, is the following:

1. We expect businesses to be aware of the responsibilities they have to the society which they reside in.
2. Globalism has changed the dynamics of business, and by proxy, capitalism significantly.

The first difference, the one of responsibility, is purely an ethical and societal one. Responsibility is the major aspect of this viewpoint, but this does not mean that there is no room for profit and other classical ideas of pure capitalism. The difference between regarding responsibility as a societal task or an in-business task exclusively is rather major; it will define the role of the business in the society and also decide whether the business is able to follow along the path of ethical development of which the society and its members subscribe to. A business who does not wish to be a part of the moral 'wants' of a society, is committing commercial suicide. Thus, the responsibility of the owners has changed. This shall be examined further, in the sections bellow.

The second difference is significant too, as the world of business as observed by Adam Smith in the 18th century was made up of local businesses and initiatives almost exclusively. The amount of international trade was insignificant compared to today. By introducing economic tools and measurements such as comparative trade, we see businesses necessarily adapt to the change in business possibilities. Apart from the connection on a global scale, there is also the connection on a societal and national scale, to which the business must be increasingly aware; not only to follow along according to trends and thereby focus in on new markets, but also because it would be unwise not to have an interest into the external parties which manifest the space in which the business reside. This has always been the case for businesses, but I would argue that this is a bigger task now than it was before, with our world and society becoming more and more connected, with a faster speed than ever before.

With these differences in mind, we can move closer to a more useful analysis of capitalism. Even though it can seem difficult to define capitalism, as it evidently has changed throughout history, it will be easier as decide which aspect of the concept we want to focus on. For the sake of continuity, I shall examine the ethical aspects of capitalism firstly, and then examine the more contemporary nature of capitalism to see in what way it aligns and is compatible with ethical business. The section on ethical business will be mainly laid out through the stakeholder theory, later on in the thesis.

Early Capitalism and ethics

I define early capitalism by the time-period in which the concept was laid out in *The Wealth of Nations* by Adam Smith. As such, comparative advantages are of no concern as of yet, and we can view capitalism in a much purer form; unaffected by business approach and desires of the societies in which they exist. Of course, this is not the understanding of capitalism which makes us able to define ethical business and ethical capitalism in a contemporary setting, but philosophically it makes sense to address the most unaffected base-understanding of a concept before addressing later versions, as it allows us to distinct between the differences which make up the different definitions.
So, what is the most basic and specific definition of capitalism?
The Oxford definition of capitalism is as follows:

An economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state.

This definition does not inherently contain an ethical statement, but nonetheless capitalism is defined as being morally justifiable by several famous economists. I shall look mainly at such statements made by Adam Smith and Milton Friedman.
But before that, we have to look more closely at the textbook definition of capitalism.
It is evident, that *profit* is immensely important as a characteristic for capitalism, and thus it is fair to assume that the profit-creating power of capitalism is one of the main points of arguing *for* the use of such a political and socio-economic system. It is, however, crucial to mention that profit in this sense is regarded as profits for the owner of the means of production; the capitalist, the owner of the capital and means of production, earns the profits and is only then able to decide whether to use this newly gained money for a higher salary for their employees or to re-invest them into, for example, better machinery to produce more, faster, more cost-efficient and for a better price than before, thus gaining a higher ROI, return on investment. Why is this crucial to mention? Apart from the evident power the

capitalist has, it is important to mention that a big ROI and profits are what economists argue is the reason for the efficiency of capitalism. Through the incentive of profits, the capitalistic society is extremely well-tailored to find the most efficient way to earn more money. Thus, capitalism creates an unprecedented level of economic development through research and development, and the free means of production. If the means of production was owned by other entities, like the state for example, then the incentive for profits is lower as the profits do not go directly to an individual who is highly motivated and incentivised to profit quickly. As such, capitalism is highly effective in creating an environment where profits can be multiplied much quicker, than if the control was not in the hands of the capitalist. Now, this of course says nothing inherently about the ethical nature of capitalism, therefore we need to examine the definition more closely.
But first I shall argue that we are now justified in our ability to define capitalism as *a system which enables highest level of efficiency of production and development, to maximise fiscal profits.* It is thus fair to highlight the mentioned parameters of *efficiency* and *profits* as being the vital building blocks to which you refer when justifying the implementation of capitalism on a societal level.

Efficiency

While there is little doubt about the meaning of efficiency, especially after the specifying statement made above, it is important once again to refer back to my problem statement and the intend to focus on the ethical aspects of the concepts which are to be examined.
According to Adam Smith, efficiency is one of the fundamentals of capitalism, if not outright the most important aspect. This, in return, means that efficiency has to be compatible with an ethical doctrine, in order to be morally justifiable. On interesting example on attempting to do this, is one laid out by Adam Smith himself, where he uses the idea of efficiency to argue against *slavery*. The argument against the possession of people and stripping them of their freedom is thus not unethical because of this in itself; the action of robbing people of their human rights and autonomy. Rather, the counter argument to slavery, is that of inefficiency:

> *"The wear and tear of a slave, it has been said, is at the expense of his master; but that of a free servant is at his own expense. The wear and tear of the latter, however, is, in reality, as much at the expense of his master as that of the former. […]*
> *It appears, accordingly, from the experience of all ages and nations, I believe, that the work done by freemen comes cheaper in the end than that performed by slaves. It is found to do so even at Boston, New York, and Philadelphia, where the wages of common labour are so very high."*

The Wealth of Nations, Chapter 8

Evidently, efficiency is extremely highly regarded in this version of capitalism. It seems as an adequate defence of early capitalism would simply be that of efficiency. Now, efficiency is an empty statement, both morally and fiscally, so we evidently need to add an additional factor at this point, namely that of *profit*. Profit is in no way a new concept, but I think it is more interesting to look at profit, ethically, in a more modern setting than the early capitalism, as the arguments against profits are, for obvious reasons, quite lacking. But in the late 20th century, we see more criticism towards pure business-adventurism and the endless hunt for maximising profits. Therefore, I shall look at the capitalistic building block of *profit*, through more modern lenses.

Modern Capitalism and ethics

Without profits, there is essentially no business, or at least, no business where economic growth is a priority, which leaves behind only very few businesses, like CSI- (corporate social innovation) firms and most NGOs. For the sake of the argument, we are then to accept that profits are paramount for a business, at the very least to the extent that it makes a business survive. Therefore, I feel confident in admitting that profits are essential to businesses in the capitalistic society, which enables profits on a much higher scale than any other socio-economic system. The question then, is, is this necessarily ethical?
According to the economist Milton Friedman, the answer is yes, sort of. In his 1970 New York Times article, he writes that:

> *"The businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are—or would be if they or any one else took them seriously— preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades."*
>
> *Milton Friedman, 1970 NYT article, page 1*

Here, he argues that there is no way for a businessman/businessowner/capitalist to be aware of social issues and having the want to help alleviate the issues through the work of his business. This is because, the businessman is essentially an employee of the shareholders. It is thus his responsibility to do as he is asked to do by his superiors, which is often profit-maximisation. What this means on a societal scale, is that the people in charge of businesses have an *inherent* and *moral* obligation to maximise profits. Why moral? Because acting against the will of the shareholder is acting against the wills of the larger corporation. This would lead to the downfall of the business, or at the very least result in the CEO being fired:

> *"In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services."*
>
> *Milton Friedman, 1970 NYT article, page 2*

So, profits are the goal of a business. This is not necessarily bad, nor is it necessarily good; it only depends on what we spend the money *on.* If profits are good, and is the purpose of a business, then it seems like it does not matter what the business is doing to make a profit, as long as it is legal, according to Friedman. This leaves the big pharmaceutical businesses on the moral side of history, the firms which earns money off disease and spend no money on preventing new diseases. Or even worse, if a company earns money of inherent immoral things, like slavery, were it to be within the boundaries of the law, like in certain oil states. Even if Adam Smith's efficiency argument should leave the business morally aware of that fact, that they should find different ways of getting labour, it is not an unethical action if it yields profits and is according to the shareholders wishes. Many philosophical thought experiments could be done here to show the severely lacking ethical mindset behind profits + efficiency = good. For example, if there is a way to earn money off human trafficking, and it is not against the law, then it is not necessarily immoral, in this interpretation of business purpose within capitalism. So, what *does* make capitalism moral, according to Friedman?
He argues that the tax system provides a solution; the representative powers within the chosen government (given this is a democratic society) act as social caretakers in the way that they decide which social initiatives need funding or maintenance. As such, the needs of the society are met within the works of a representative government, and thus it is not of interest for the business to take this responsibility. The responsibility of the business is therefore that of adding to the capital of the representative government through taxation, and thus act towards the need of the society through self-interest and goal of maximising profits.
However, this is to say that capitalism is ethical because systems exist which disables the lack of social interest the businesses have.

Thus, efficiency and profits are only ethical qualities by proxy; with capital we are able to build the society we want, and people are enabled to live the life they desire.

As such, proper design of our society is required; for without a society structured to share the capital and thus the ability to prosper and create a good life, we are unable to make any ethical benefit of the efficiency of capitalism. Conscious and morally guided social structures are mandatory, if we are to view early capitalism as ethical.
This version of capitalism is compatible with an ethical system and is thus aligned with the problem statement. The issue, though, is that there is no way that early capitalism allows for a clear ethical direction without proxying; we simply need to add too many *ifs*, for this version of capitalism to be considered properly compatible. Therefore, the search continues, through even more recent interpretations of capitalism.

Contemporary Capitalism and ethics

The biggest difference between contemporary capitalism and modern capitalism is, to me, the awareness of the friction in the relationship between classical capitalism and inherent ethics. There is evidently a lot of focus on the concept of responsibility when it comes to explaining capitalism and defending its implementation in society. Not only is capitalism defined partly by who owns the means of production and thus the responsibility to produce, but modern economists like Friedman has argued for the responsibility of the managers to the owners, the shareholders. Thus, responsibility and ownership seem of paramount importance to modern capitalism. Not only does is this the case for modern capitalism, but even for a newer version of capitalism here in the contemporary world of business, we see an increased interest in ownership and responsibility. There is a shift, a rather natural and predictable one, as a consequence of a decade of one political belief dominating across the west, the right-wing populism in this case, where people look increasingly fondly towards the opposite direction when they grow tired, thus more left-leaning pragmatic solutions to the insufficiencies of the past are creeping up to become part of the mainstream discourse. Because of this, consumers have become more aware of the limited possibilities for ethical business in a highly concentrated capitalistic society, where there are limited regulations. This results in heated discussions on the topic of ownership in regard to owning the means of production. In other words, a classic *capitalism versus socialism* match-up.
But what does this mean for the future of capitalism? It seems like people are fed up with the system, and therefore it could be regarded as the death of capitalism. However, several economists have tried to come up with editions of new models for capitalism which allows the high efficiency and freedom of the system to be compatible with the wishes of the society and its inhabitants. There exists a plethora of models for a new, modern and compassionate, capitalism, and we shall look at one of the most successful ones next. But first, I deem it necessary to revisit the concepts of *ownership* and *responsibility* before examining further models of capitalism; we need this in order to differentiate between the models and put it all under careful scrutiny. For without understanding responsibility, we cannot make ethical judgments on participating agents, nor deem them just or unjust. But before responsibility, lies ownership, as ownership enables certain responsibilities that non-owners do not possess

or have to consider. Thus, responsibility becomes a function of ownership, and therefore will be examined alongside said quality, as a necessary product of ownership.

Ownership and Responsibility

We do not really need to examine *ownership* as a concept and word, as the meaning of ownership is apparent to us already. However, we do need to examine what ownership means in some specific circumstances, and what this leads to in regard to possible ethical systems as well as interpretation of capitalism and business management.
Ownership is more than just being in possession of something; you do not call the owner of a dog the *possessor* of the dog – there is more tied to it than simply being the individual who *has* something. For example, being in possession of a chessboard sounds significantly different than being the owner of a chessboard, but someone can of course be both in possession of the chessboard whilst simultaneously owning it, or owning it without being in possession of it and so on – the point here being the different qualities of the words, without them being exclusive. To have ownership of something, seems to also mandate a certain amount of responsibility, as mentioned earlier, which *is* exclusive to the owner.
But how has ownership an effect on the way we do business? Evidently a lot, as we can simply take a look on the different approach to how we understand capital and power through ownership in capitalism versus the kind of ownership found in socialism. The entire system is significantly changed, just by deciding who has the rights, and responsibilities, of ownership.
With this, then, we can examine how ownership affects the duties of the owner, and in what way they have change over time, thusly creating a need for modernization.

Colin Mayer in his 2020 article *The Future of the Corporation and the Economics of Purpose,* describes the quite recent, but rather significant, change in ownership due to modernization, as follows:

> *"First, while physical assets funded by shareholders play an important role in manufacturing firms, they do so to a steadily diminishing extent as companies depend increasingly on human, intellectual and social assets […].*
> *Second, as the dependence of firms on external parties intensifies so too does their impact on them. The impact of firms on their supply chains (for example, Amazon and Uber), societies (for example, Facebook and Google), and environments (for example, airlines and energy companies) has grown markedly."*
>
> *Mayer - 2020, p. 11*

Basically, the ownership of a business extends from the new tools and items a business has become in possession of thanks to initial capital investment of the shareholders, to 'softer'

tools and items such as social assets. This effectively means, that the power of investment often provided by shareholders hold less and less power, compared to what it used to. As a result of this change, the shareholders also lack the ability to demand as much of a return on their investment, ROI, as they once did. The role of the owner, the shareholders in this case, thus becomes a concern of lesser importance to the manager. The ownership holds less power and responsibility, and the responsibility shifts to become increasingly a matter for the manager to deal with. Ultimately, it means that the rights which derived from the investments of the shareholders, have shifted into obligation and responsibility to uphold and respect the interest of the external parties which the business now depend upon, and impact *(Mayer, 2020).* Even beyond this, the notion of ownership has an impact on the market in which the business exists; as the responsibilities and obligations of the owners continue to diminish, the competition between businesses affect the market structure in such a way, that the market failures is intensified and as increased effect on the external parties not directly associated with the job of the business owners, such as the local community, the costumers, the consumers and so on *(Mayer, 2020).* This also means that it is growing increasingly difficult to pin-point the failed responsibilities and obligations to an actor, as businesses have a different responsibility towards the society and external parties in the same manner as the government has, *"It so happens that we have defined ownership in such a way that it places many, and increasingly most, of the consequences of firms outside the legal boundaries of the firm; but there is no reason why that should necessarily be so." (Mayer, 2020, p. 11).*
There are two solutions to this issue, as I see it:

1. The business has to re-empower the position of ownership and regard the consequences of the owner as impactful beyond the physical bounds of the business as a burden for the owner to necessarily deal with.
2. Firms, enterprises and all kinds of business have to increasingly regard the external parties of the society in which they exist, as a crucial part of their business.

The first solution is centred around the rather conservative idea of ownership, a Friedman way of looking at business, if you will, and as mentioned not long ago, this is increasingly difficult, and folly, for businesses to do. There are too many issues with this solution on a societal scale, but also at a business level: the old notion of ownership is no longer fashionable, arguably it is no longer plausible, for a business to consider. The competitive loss would be too big, and this is before even considering the ethical losses. As such, I deem this solution sub-par, if not just downright poor.
The second solution, I would argue, is much better for the business on a pro-profit base, but also, more importantly, morally so. This is because the business is to consider their impact on the external parties as part of life, for commercial enterprise, if they are to properly regard the external assets which play a hugely important role on the life and success of a business. *Intangible assets*, as Mayer calls them, are just important as tangible and physical assets, and should genuinely be considered when accountants report on assets. So, what does the action

look like for the owners then? They are to *internalize what is currently regarded as externalities* (Mayer, 2020). This effectively means, on a basic level, that the business is to make the external parts of society *a part of their business*, in a way that of course does not impact the autonomies of any of the externalities. With this sentiment, we are getting closer, once again, to the inherent nature of *stakeholder theory* which will be examined later in the thesis. Currently, regard the action of the business necessary to internalize externalities as necessary for the business to prosper in a contemporary setting. *"As firms become progressively organizations, that do not own but coordinate human, social and natural assets, they increasingly need to forge partnerships with these other parties."* (Mayer, 2020, p. 12).
There is an inherent issue with the conservative notion of ownership, and regarding it the same way we would regard possession or personal ownership.

The issue of ownership within classic capitalism, is that it is viewed as only a package of rights and powers which signal strong authority through which they own and govern. Ownership means being the owner of the means of production, for profit, in this iteration of capitalism. Getting out of this version of capitalism, and into a system which allows to consider the impact of their enterprise onto the society, would therefore demand a reconsideration of *ownership* where the obligations and responsibilities which follow, are a part of being the owner, as the external parties and the relationship of the business with these parties are of major importance. The need for change and consideration of externalities is apparent, at least if we are to stay within capitalism. Thus, I view it as a fair and appropriate to regard contemporary capitalism as a system where efficiency is high, but profits have to be tied to a do-good-for-society mentality; the profit has to be the result of an intent to create profitable solutions.
Profiting off solutions which makes society a better place, is simply the way to go, according to Mayer, but also according to this version of capitalism, and as a result this should be considered the version of capitalism which is the most compatible with society. But is this necessarily ethical?

Now that we have considered the different iterations and understandings of capitalism, and accepted the contemporary definition of capitalism as the version with the highest possibility of ethical compatibility, we are now at a place where the only way out of obscurity is to delve into ethics, and see what versions of ethics makes the most sense to default into a socio-economic scale.

Ethics

Ethics is, simply put, the department of knowledge which is concerned with moral principles; the moral actions which are *good*, and thus morally defensible. There are three major schools of ethics: Utilitarianism, Deontology and Virtue Ethics. For the sake of simplicity, I shall only cover utilitarianism and deontology in my thesis, as virtue ethics lack a clear set of rules to follow (not due to the lack of effort by the brilliant Philippa Foot), which makes it inherently more difficult to align with the system of capitalism.

The biggest difference between utilitarianism and deontology is *when* they deem an action moral or immoral. In the doctrine of utilitarianism, the focus is on the *outcome* of a moral choice, therefore being consequential. In the doctrine of deontology, the focus is on the *action* of the moral choice itself, therefore not being consequential but categorical.

A rather easy way to showcase the difference between these two doctrines is by that of the *trolley problem.* The trolley problem is a famous philosophical problem which takes root in the idea that there is a choice which would be the *most* good. In short, the trolley problem is as such:

You are sitting in a trolley without functioning breaks, going in high speed down the railway. Suddenly you see that there are five people tied to the tracks in the direction you are currently going, certain to get killed by your trolley. You also see a switch inside the trolley, which would make you switch to another set of tracks, but on that track, there is one person also tied to the railway, again, certain to be killed by your trolley were you to switch tracks. The dilemma then is, *should you switch tracks and only kill one person, or stay on your path and kill five?*

The utilitarian would regard the moral good choice as the one where your choice ends up killing one person instead of five people. The utilitarian would regard this as the moral choice since the *end result* would end up creating the most happiness for the most people possible. The consequence is the 'least bad' one, and thus it is better, no matter how bad the choice seems in a vacuum. The deontologist would argue that the *action* of choosing to switch tracks is immoral, as you then are actively choosing to kill the one person. It does not matter, ethically, that you are in a trolley on its way to kill five people; this is out of your control and thus there is no moral action you have made or could take to change the situation. But, were you to actively choose to switch tracks, then your *action* would mean the death of a person. The consequence of your choice is thus not remotely important, the important part is the moment you make an active choice.

In short:

- Utilitarianism is purely consequential, and regard an action as moral or immoral based on the outcome of the action
- Deontology argues that any action is inherently either moral or immoral, and as such the action is the moment of moral decision-making

With this distinction in mind, we are now able to examine how a contemporary capitalism would look if it was to be influenced by one ethical doctrine over the other.

The interest for us here, is to see what version of ethics that capitalism is the most compatible with, so we then later in the thesis can look at the impact on business this would have.

Utilitarianism and capitalism

The ethical doctrine of utilitarianism is most easily defined as viewing the moral action as the one which assures *the greatest good for the greatest number of people*. This already sounds inherently capitalistic, as the basic definition of capitalism would, through immense efficiency, enable a great amount of people to share in on the economic growth of the society, which would create great utility for the people. Indeed, the principle of the invincible hand first coined by Adam Smith seems to align perfectly with such a belief, as it contends that it creates the greatest good for the greatest number *(Freeman, 2001, p. 4),* effectively denying the need for governmental regulation and interference. Milton Friedman argued, as mentioned previously, that the tax system would enable this to happen. However, as we have seen, this can easily be disregarded if the government were to use the taxes on anything which would not enable the *greatest good for the greatest number of people*, for example by spending immense amounts of tax payer money building a military power, not in direct use to make the inhabitants of the country's military more happy. There will be a point on the possible solutions through governmental regulation, later on in the thesis, too. When it comes to maximising the greatest good for the greatest number of people, we can regard capitalism as successful in this regard if we view utility provided through economic growth as a morally good thing. The Greek philosopher Plato was mostly concerned with ethics in regard to *the good* inherent in a statement or ultimate idea, whether this would lead to a benefit for the agent, or society as a whole, or not. The difference between this ethical view and utilitarianism, is how the moral code provided by Plato is concerned with morality through principles and virtues, where the virtues often would be rather broad and tie itself to an idea more so than an impact in the physical world. Utilitarianism is not concerned with ideas at all, it is exclusively concerned with the outcome of a moral choice, in the physical world. As such, the benefit provided through utilitarianism is to be understood as anything which gives utility to the individual members of society which make up the society as a whole. As capitalism is focused on providing benefit and utility through production of goods due to high efficiency, there is a minor differentiation between capitalism and utilitarianism here, as utilitarianism is concerned by utility in the form of ethics, or moral goods. This effectively means, that though capitalism and utilitarianism fit very well together, we have to keep in mind that the utility which is provided through a capitalistic socio-economy, is not viewed as ethical utility per default, in utilitarianism. But one big thing capitalism and utilitarianism seemingly have in common, is how it regards on consequences and outcomes, thus the part where an action is committed is not as important. Still, however, the systematic approach from a utilitarian perspective is very reminiscent with that of capitalism; there is a *pursuit* of a greater socio-economic good within capitalism, which utilitarianism does allow. The pursuit as a shared trait allows us to regard the interaction between the two, in new light:

> *"Every art and every inquiry, and similarly every action and pursuit, is thought to aim at some good; and for this reason the good has rightly been declared to be that at which all things aim."*
>
> *Aristotle, 1999, p. 3*

According to Aristotle, the father of logical ethics, it seems evident that it is indeed possible to make everything ethical in nature. In other words, it is impossible to take ethics out of anything that humans are able to do. Thus, when we apply this to the system of capitalism, we see capitalism as a proposition to an ethical political and social structure. Thereby, we are able to make the following observations on capitalism:

1. Capitalism is a socio-economic structure, which aims at producing goods as efficient as possible, as cheaply as possible, accessible to the most people in a free market as possible. Free individuals own the means of production. The lower the state regulation in existence, the purer the capitalistic format presents itself.
2. Capitalism is an ethical proposition towards the preferred design of the moral and good society. In the capitalistic society, the freedom to pursue your own interest and sell your labour to the highest bidder is essential, but not guaranteed, as the free market overpowers any 'wants' you might possess.

The first statement is essentially a definition of capitalism, which accepts the pursuit of free market as a fundamental cornerstone for the socio-economic model which it presents. The second statement requires us to accept that selling your labour to the highest bidder is ethical in some sense. For utilitarianism, the power to choose between different salaries proposed by different businesses evidently empowers the agent to make a choice which would secure them the greatest good, i.e. the highest salary. Self-sufficiency through selling your own labour and freedom of choice thus seem ethical:

> *"From the point of view of self-sufficiency the same result seems to follow; for the final good is thought to be self-sufficient. Now by self-sufficient we do not mean that which is sufficient for a man by himself, for one who lives a solitary life, but also for parents, children, wife, and in general for his friends and fellow citizens, since man is born for citizenship. But some limit must be set to this; for if we extend our requirement to ancestors and descendants and friends' friends we are in for an infinite series. Let us examine this question, however, on another occasion; the self-sufficient we now define as that which when isolated makes life desirable and lacking in nothing; and such we think happiness to be; and further we think it most desirable of all things, without being counted as one good thing among others- if it were so counted it would clearly be made more desirable by the addition of even the least of goods; for that which is added*

becomes an excess of goods, and of goods the greater is always more desirable. Happiness, then, is something final and self-sufficient, and is the end of action."

Aristotle, 1999, p. 10

Here, Aristotle explains that there is an ultimate and final goal to pursue. We can summarize it thusly:

- There exists an ethical goal which is ultimate in nature, a *final good*. Every action performed by an agent necessarily leads to this final good. There is thus a path through moral actions.
- This *final good* is intrinsically and necessarily self-sufficient, as it is ultimate in nature and thereby makes life desirable and lacking nothing and provides a completion if successfully obtained by the agent.
- The final good, and goal, is happiness, which everyone pursues. There is nothing greater than this *final good*
- Happiness, the final good, is not multipliable and is not 'more good' if we can add goods. It is ultimate, final and infinite.
- The final good, is what every action pursuit and aims towards

Now, this rundown of logical conclusions seems to insist that the only way towards the final good is through *action*. This might be the case, but we are not to regard this as a hint towards deontology, which is concerned with the inherent morality of actions, is more aligned with capitalism; for even though utilitarianism is consequential, we can never have an outcome without an action. In short, a consequence is the outcome of an action, thus the action is necessarily mandated to exist for the consequence to exist as well. Thereby, we have avoided the trap of dismissing utilitarianism as being able to contain the possibility of the ultimate good. Through the final goal we can align capitalism and utilitarianism as a socio-economic structure which enables every participant in society to seek the path towards higher amounts of wealth and greater accumulation of capital.
Once again, we are at a point where we can accept capitalism as being ethically compatible with a system, such as utilitarianism. However, this is not intrinsically ethical, as we are to justify utilitarianism first and foremost, and even after this has been done, we are to accept capitalism as an enabling force of the final good. Ultimately, this is only possible if we accept the idea that the final good, happiness, is the same final good within capitalism. Since the definition of capitalism lacks any ethical statement in itself, we are to find it through other systems, one being utilitarianism. One could argue, like Friedman, that the ethical system *within* capitalism is the enabling force of explosive capital gain. Again, we are to move this claim to one of a proxy; it is only ethical if we spend the capital to guarantee the greatest good for the greatest amount of people. The securement of certain benefits and living

standards thus seem to be the argument for the ethical nature of capitalism, which is very consequential.
But how is this even an ethical statement? We can make an attempt at an argument thusly:

1. Capitalism provides a higher amount of capital gain, wealth, for higher amounts of people
2. Societal initiatives which provides ethical utility for the people within the society, can be purchased
3. The wealth which is accumulated through capitalism can be used as purchasing power
4. Capitalism enables people to buy the ethical utility provided by the society and state
5. Capitalism is therefore ethical

Now, personally, I would never dare to defend this argument, even though several economists have attempted to do so throughout the decades. There are multiple reasons for this, but the biggest reason is simply how naïve one would have to be, to accept all the premises above without question. The important ethical statements require certain hidden premises to be accepted beforehand. For example, (1) we can accept, as this is just a definition and therefore holds no ethical power inherently. But (2) is not a definition, though it is a pragmatic truth for most countries in the northern hemisphere – for the sake of the argument, we accept this as true, if nothing else, simply for being descriptive and not prescriptive. (3) is true only if the state is thusly designed. For example, in Denmark you can buy less utility through capital directly than you can in the United States of America, but we spend a lot of public capital through taxes to enable the utilities. Thus, Denmark is lesser capitalistic and free market than the USA, but we secure the utility for more people, as they get these even though they cannot directly afford it. So, we do not accept (3) as ethical or even as efficient, but it is nonetheless a true statement for certain states. (4) is true in the same states where there is a free market, and (3) is true. (5) is only logically sound if we accept all other premises without issue, which we evidently do not. So where do we end up then? To me, there is only one statement on the ethical nature of capitalism which would be true in any state in which it exists: *Capitalism has the ability to be ethically compatible, but has no intrinsic ethical quality; every ethical quality provided through capitalism is a bi-product of the unification between capitalism and other socio-economic structures which limits capitalism. Morality in capitalism is thus a proxy.*
This proxy is not the same as saying that capitalism is unethical, it is only a statement which accepts the limits of capitalism in its purity and appreciates the influences of external parties and systems to enable a capitalistic ethics.

At this point, I feel confident in the conclusion above, but we have yet to address the possibilities provided by the ethical doctrine of deontology. So, before we address the ethical proxies of capitalism, the biggest ones being business and governmental regulation, we need to address deontology.

Deontology and capitalism

When we talk of deontology, we have to appreciate the difference between action and consequence fully, as this is what made deontologists feel the need to create a different ethical approach. There is a need to critique utilitarianism, therefore, for us to comprehend its shortcomings and thereby the need for deontology, according to their defenders.

The biggest complaint a deontologist has against utilitarianism, is that it ss incredibly reliant on subjective calls on what is morally justifiable. Given, this is not really the case in easy-to-comprehend ethical problems like the trolley problem, as the measurement to be done is not overly subjective; one life over five does not rely on subjectivity more so than appreciating that numbers can differ in size and absolutes. However, when we setup more challenging problems, we begin to see the justification in the criticism from Kant. For example, if we are to regard the following ethical thought experiment:

You are the pilot of an F-16 fighting jet, with the mission to eradicate a band of terrorists hiding in a suburb. When you get the location-coordinates sent to you through the speaker-relay in your headset, you are also warned that near the compound wherein the terrorists are hiding, is a kindergarten. You are being informed that if you bomb the compound, you will take out the terrorists, but you will also hit the kindergarten, likely killing several innocent children and adults.

The challenge here is manifold, even though it seems as a direct comparison between the utility provided by killing the terrorists and hitting the children, or not hitting anything but letting the terrorists alive. In reality, we are to make several calls:

1. What amount of utility does it provide, when one terrorist gets killed?
2. How many terrorists are we able to kill?
3. What amount of utility do we lose when a child gets killed?
4. What amount of utility do we lose when a caretaker gets killed?
5. How many children are we likely to collaterally kill?
6. How many caretakers are we likely to collaterally kill?

All these considerations are important to respect and deal with, if we are to make any attempt at a proper, fair and moral action. Some questions are objectively measurable, namely (2), (5) and (6); they are all measurable directly or by an estimate. However, the subjective measurements like (1), (3) and (4) are the most difficult to answer, but also the most essential if we are to make an ethical judgment. If we cannot answer these, then we will never be able to consider the final question (7):

7. Does bombing the compound result in the most utility?

The answer to this question is rather mathematical, it is essentially (1 x 2) - (3 x 5) - (4 x 6) = (7), where (7) has to be a positive number to be deemed as a morally justifiable action, and

thus ethical. We have to do this, as utilitarianism is consequential, only, and thus we need to incorporate every action which could change the outcome, thereby change the consequence. For a deontologist, this is simply not an effective system, and thereby they created an ethical doctrine to counter the absurdity of the subjectivity which can make an ethical statement almost impossible to solve.
The deontological solution to the ethical problem mentioned above is thus far easier to comprehend:

- Committing an action which results in the death of a(n) individual(s) is unethical
- We intent to perform an action which would result in the death of terrorists
- Terrorists are individuals
- Our intent is thus unethical

This argument is, clearly, far easier to comprehend. Notice, too, that there is no mentioning of the kindergarten, the children or the caretakers. This is because the consequence of our action and the impact of it is irrelevant to the ethical nature of it; are we to kill anyone, it is unethical, whether it be a terrorist or a child.
Deontology therefore only deals in absolutes; it is either wholly wrong, or wholly right, there is no measurement. If you were a farmer who were hiding Jews from the Nazis, and a Nazi officer came to your house and asked for the Jews, you would be morally obliged to tell him of the Jews' location. Were you to lie, it would be morally wrong, even though it would protect the lives of innocent people. A deontologist would not be concerned with this, as the consequence is of no importance, and lying, which is the action, is unethical and should therefore be scolded. Even more so, were you to go out and kill the Jews yourself, this would of course be unethical, but not *more* than that of lying; there is no immoral action which is worse than another immoral action, or vice versa for the moral ones.
Ultimately, this makes utilitarianism able to measure ethical outcome indefinitely, compared to deontology. Thereby the problem from earlier is even further measurable:
The outcome of the (1 x 2) - (3 x 5) - (4 x 6) = (7) problem statement, demands that (7) has to be > 0. But even here, we can add another level which deontology is not capable of, as we can measure *how much above 0, we end up with ultimately*. The action is thereby *more* ethically justifiable if (7) = 1.000 compared to (7) = 500. This makes it even more difficult for deontology to adhere to the requirements of contemporary capitalism, where the subjective and measurable parts of regulation, wants and needs of external parties, the responsibilities of the owner etc. are increasingly subjective and non-absolute.

However, there is a very redeeming quality of the deontological doctrine of ethics, which comes with the editing qualities of the 18th century German philosopher, Immanuel Kant, one of the greatest deontologists through history; namely that which suggests *treat persons as ends unto themselves*:

> *"Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end."*
>
> Kant, 1993, p. 429

This suggests that there is room within deontology to focus on the humanitarian aspects of action, and not simply dismiss any notion of end and consequences for humanity. Of course, deontology is without care for the consequences of actions, as previously stated multiple times, but we now have an option to reconsider deontology's effect on capitalism.

Freeman argues that this Kantian principle is paramount to stakeholder theory, as it enables the humanitarian approach to customers:

> *"In its simplest form this approach argued that we are required to treat people "as ends unto themselves." Thus, managers should make corporate decisions respecting stakeholders' well being rather than treating them as means to a corporate end."*
>
> *Freeman, 2001, p. 17*

Here, we can see how this Kantian principle enables us to incorporate the *human* aspect into our consideration, when regarding our end goal in a corporation. This will be very important when we look at business and stakeholder theory next.

However, before we do so, I would like to quickly point to our attention, that the Kantian principle mentioned here does not negate any of the issues of deontology in any way which would be beneficial for the problem statement of compatible ethical doctrine with capitalism; there is simply no inherent value in deontology which would make it more economically or ethically effective in society, compared to utilitarianism. The only way it would be more effective, is if we regarded efficiency in time spent per ethical problem to be of any consideration at all. Even if we did appreciate this, which we absolutely should, I would argue it falls short of the benefits exclusive to utilitarian capitalism; we are simply too interested in consequences when we run our business. Asking 'what does this action lead to?' is *everything* when deciding on an economic decision – it is equally important when asking ethical questions in society as the outcome of our decision would affect external parties, which we have decided should be internalized. Capitalism is a system which functions on a scale as big as society allows it, thus following under the same scrutiny the government does. Political governmental methods of today are inherently utilitarian. The faults of the system do not lie in the utilitarian system, but rather how we measure the utility of each premise making up an argument.

As a result, regulation is necessary to guide the utilitarian capitalistic society towards a more efficient, ethical and inclusive State, as this allows the business to act ethically according to the boundaries of society. Given, a pure capitalistic society does not accept boundaries, but as we have accepted earlier in the thesis, there is no room for an un-affected capitalism in todays' world. Therefore, regulation is the way forward in the utilitarian capitalistic society, which we shall now look further upon.

Regulation, and the power of State over business

Regulation is essentially defined as *a directive or rule created and maintained by an authority.* In this section, I shall focus entirely on regulation created and maintained by the governing state of the society within the businesses exist. This is because regulations have profound effect on how to conduct business within said society, and I am mostly interested in the external effect unto business, as the examination into capitalism and utilitarianism on a societal level suggests.

So, what does regulation mean for the business? In short, it shapes the field of operation for the business. Indeed, it also necessarily affects the size and scope of the essential capitalistic quality of free market. A theoretical example of regulation in effect, is *the tragedy of commons.* In the tragedy of commons, we see the devastating effect on all consumers of a shared resource, were some participants to behave in pure self-interest. An example of this problem is if we imagine a lake in the middle of a field, with several households located upon these fields. All the members of the household want to share in on the fish witch can be caught in the lake, but they also know that if everyone is to fish freely from the lake, the lake would end up containing no fish in the end due to overfishing. Thus, they are required to *regulate* the fishing activities. They democratically decide that each household is allowed to catch three fish per week. Were more households to join this rule, the amount of fish allowed to be caught per household would be reduced accordingly, and vice versa were households to leave the deal. Now, let us imagine one household being so greedy that it decides to catch *four* fish per week, instead of the allowed three. Ultimately, this would lead to the demise of the food source within the lake, damaging every other household on the fields. The only way the end result could be good for every participant, is if every member of the 'contract' upholds their responsibility to the commons – the common here being the lake. Self-interest thus leads to demise of other members of a society. This is *the tragedy of commons.*

While the tragedy of commons could seem as an issue preserved in the past, as we today have powerful institutions in place, securing the contracts of the 'field' to be respected by all parties. However, today we seem issues such as overfishing in international waters, taxes on CO2 emissions being un-anchored, deforestation of forests causing issue for all the globe etc. These are all public goods, clean air and fresh water, and if they are contaminated it will mean damage for countless of people. The issue lies in the lack of will from businesses to be the bringers of initiative in combating this problem, they are not the 'first-movers' and seldomly tries to be. As described earlier in the thesis, we see an issue with businesses being too invested in thought of self-reliance, and a refusal to internalize externalities:

> *"The problem of the "tragedy of commons" […] pervades the concept of public goods such as water and air. No one has an inventive to incur the cost of clean-up or the cost of nonpollution, since the marginal gain of one firm's action is small. Every firm reasons this way, and the result is pollution of water and air. Since the industrial revolution, firms have sought ti internalize the benefits and externalize the costs of their actions. The cost must be borne by all, through taxation and regulation […]."*
>
> *Freeman, 2001, p. 4*

Thus, one way to fix this issue, is through regulation. In this circumstance, there is no real authority, but in a society as a whole, there will always be different tiers and levels of authority, the biggest being the government. Regulations are more than just a set of rules, it is also the expressed wishes of the government, where the government in itself is the result of a democratic process where the inhabitants of a society is able to make sure that some people in power will respect their wishes, needs and wants. As a result, governmental regulation often ends up being legal boundaries and societal nudging implemented through collateral intention of the society. These boundaries are thereby also an ethical statement made on a societal basis, thusly affecting business and capitalism to adhere to the external parties in the society. Therefore, I would argue that democratic regulation is the best, and most widespread, way of ethically guiding capitalism and by proxy, business. An effect of this could be limiting the extent of the free market, as mentioned previously. Regulating the free market is not simply market it 'less' free, it is rather that the society which enables capitalism in the first place, value certain aspects of the market higher than others. Also, as we saw earlier, capitalism can be viewed as a socio-economic system which aims to create value and utility for the inhabitants of the society, and is thus an ethical proposition to which the society can add additional parameters, to make it achieve the socio-ethical goals demanded by the society. The free market could pose dangers to the inhabitants, were the consequences of the free market not properly calculated. In the free market, slaves could still exist if this was the most economically beneficial way of using labour, for example. Evidently, the free market has no ethical qualities of its own, it is inherently completely amoral and neutral, which is the perfect pre-set for governmental and societal edit. The free market is simply just a yet-to-be-regulated force of capitalism.

However, the government designing these regulations have an ethical limit set by the democratic forces hiring them in the first place. As a result of this, the state can rarely be more ethical than its inhabitants.

Regulation also enables higher amounts of responsibility for owners of business, as they are now directly mandated certain guidelines for existing in the society. More regulation means more responsibility, but this does not equal out to limits forced upon businesses, necessarily.

This is because regulations help create and design the 'landscape', so to say, wherein the business and its competitors operate. Regulation, thus, create the rules of the field – just like in the example of the tragedy of commons above, but this time with the possibility of actual forcing obedience to the rules and regulations inhabiting the fields. Now, as I say, this does not need to limit the business into ruin at all, on the contrary it enables all businesses to engage on an even playing field, or so the regulations intend to enable, at least. Businesses ought to see this as absolute fairness. Additionally, this enables certain businesses to make moves towards more ethical behaviour than they would be without equal regulation for all. Allow me to explain:

Business A wants nothing more than become more sustainable, environmentally aware and green. Business B does not care for these things and continue to produce and consume as if these concerns were of no merit at all. It turns out, that in the society which both business A and B exist, it is immensely expensive to 'Go Green', and doing so would mean the business would become less competitive on the market for some time being, as a result hereof, thereby self-harming their own business. Therefore, Business A would *want* environmental regulation, as this necessarily makes it so that every business within the society must adhere to the same rules, thereby evening out the playing field. These regulations would enable Business A in 'Going Green' without losing competitiveness, as the competitors are forced to do the same, to a certain extent, were they to stay within the rules of the market. In other words, regulations prevent the sentiment that businesses need to be the *first movers* of societal change, by enabling political influence changing the market structures.

Regulations can thereby enable ethical business conduct, on a grand scale, that a complete free market is not directly able to.

Even then, the businesses could forge alliances to secure a better society for all, which could lead to huge benefits for the business, as increased reputation and relationships with its external partners:

> *"There is no reason why trade associations and other multi-organizational groups cannot band together to solve common problems that have little to do with how to restrain trade."*
>
> *Freeman, 2001, p. 7*

On a grander scale than just *one* society, namely international markets, we see how regulation sometimes need to be international to be ethically effective for all businesses. For example, if the environmental regulations earlier mentioned are not international, or at the very least regarded in the complete supply chain of the business, there is the risk of the problem being regulated against simply moves to another country by either moving the means of production or lessening production in country A and thus increasing, indirectly, the production of the same good in country B through the simple market mechanics of supply/demand disregarding direct comparative advantages in macro-economics. But production is not the only measurement here, we can look at the transportation to fully comprehend the issue: If a truck is delivering good from country A to country B, and drives through country C on the way, which country measures the CO2 emissions of the truck? Without shared regulation and information across these three countries, there is no way of creating an even playing field, which could mean the end of certain businesses, even though they might attempt to be exemplary and responsible first movers on the market.

So, we value regulation and appreciate the positive effects it has on our society and capitalism in general. But it immensely important to point out, that *not one* regulation can be effective in any way, if it is easily avoidable or unaccounted for, which would completely destroy any good intent the regulation, and the society as a whole, would have in the first place. Businesses, and countries too, for that matter, can navigate around regulation and societal responsibility in this scenario, as Paul Collier writes in *The Future of Capitalism*:

> *"Every regulation can be subverted by clever box-ticking; every tax can be reduced by clever accounting; every mandate can be fudged by motivated reasoning. The only defence against such actions is an all-seeing police force. This does not mean the prying paternalist state: it means ordinary people in their role as citizens.*
> *Once a society has enough citizens who understand the proper purpose of companies, and have accepted it as a norm, we ourselves become the anchors of good corporate behaviour. Our responses to good and bad conduct become an instance of the gentle pressure of esteem and shame, the system that maintains the vast network of reciprocal obligations characterizing all successful societies."*
>
> *Collier, 2018, p. 80*

In other words, the only true way the society is able to hold businesses accountable, is by citizens standing up for the ethical guidelines which they have laid out.
Evidently, the externalities to business, in this case the people of the society, is important to uphold and govern the paths and wants of the business environment and society as a whole. This, in return, also enables the businesses to be more effective in their attempts to be more ethical in their approach to commercial enterprise in general; by listening to the desires of the community in which they exist. Effectively, a business is to listen to the ethical wants of the society, in order to do *good* business. Good, here, meaning both efficient and morally justifiable. This is immensely important for contemporary capitalism as it is moulded by the society as a whole, thereby creating a very specific business environment. An environment centred around everyone who has something to gain, or lose, depending on how well a business is doing, or how well it is ethically compliant. In other words, parties who hold a *stake* in the success of the business; a *stakeholder.*

Business

Throughout the thesis, we have seen different iterations of capitalism, each showing how ethical conduct is enabled in different ways according to factors such as ethical doctrine followed, power of the state to regulate and the power of the people to get their wishes through to the businesses. Capitalism, therefore, indeed, has many ways to be compatible with any ethical system, thus allowing for business ethics to reach new heights, through the inherent power and capabilities of capitalism.

Even though this is the case, capitalism is *conceptually* coherent throughout the ages, in its most basic form and has merely been addressed differently according to which time and age we live in. In the most recent view on capitalism and business ethics, which spans no longer than the last few decades, a significant shift has occurred; we see an increased interest to make capitalism compatible with a more progressive way of life which imbues most first world societies. It seems as there is no longer an automatic acceptance of capitalism as being for profit only, it has to be profit secondarily, doing good for the society primarily. Or rather, making a profit is a given, but it has to be done through doing good. Profiting off making a net benefit for the society, is in other words the way for businesses to be ethical, but how does this align with capitalism? If self-interest only contained by responsibility to shareholders and regulators are the primary driving force for the management of a business, then what is the procedure to nudge businesses into a worldview where there is an inherent interest in doing good for society and not just profiting of it?

One answer, which is what my basis of theory used in this thesis is primarily subscribed to, is that of the *stakeholder theory*, which started out in the 1980's as a counter to shareholder theory, briefly summarized earlier in the words of Milton Friedman.

Stakeholder Theory

In 1984, R. Edward Freeman came up with a theory, which he argues would be the counter to the old shareholder/stockholder approach to business – and as seen throughout this thesis, there is a need to remodel or completely redesign the shareholder approach, as this limits the ethical effects of business on the society in which the businesses exist. Freeman laid out the basis of the stakeholder theory in an article, describing the intent of the stakeholder theory as a revitalization of managerial capitalism, but with the responsibility of the manager being that of duty to the stakeholder, not the stockholders *(Freeman, 2001, p. 2).* The parties who make up the stakeholders, he describes as follows:

> *"[…] I include suppliers, customers, employees, stockholders, and the local community, as well as management in its role as agent for these groups."*
>
> *Freeman, 2001, p. 2*

Stakeholders are simply the groups who have a stake in or claim on the firm *(Freeman, 2001, p. 2),* as previously mentioned. The entire idea of this, is to make businesses more aware of the needs of the society as a whole, which is good, efficient and ethical, business, argues Freeman. The important question which until now has not been addressed properly, according to Freeman, is *in whose interest and whose benefit should the firm be managed? (Freeman, 2001, p. 3).* The answer to this question has historically been the stockholders. However, Freeman argues that throughout history, the legal power of regulation has indicated a change in priorities; that people want change, and want businesses to take the external parties more into consideration, when doing their business conduct *(Freeman, 2001, p. 2-3, 'The legal argument').* This, quite clearly, is reminiscent of what I have argued throughout this thesis; the fact that there is a need for change, and a clear way to force this effect through quickly is through regulation. But as Collier argues, the 'police-force' needed to make sure businesses comply, have to be made up of everyday citizens – the, arguably, biggest member of the stakeholders, going only by size. Therefore, regulations are not as simple as swinging a magic wand to make businesses comply.

To me, the whole idea of proper business ethic, is not to *make* businesses be ethical, but enable business conduct which naturally spawns and maintains a conscious and ethical conduct of commercial enterprise. In other words, external action through mandate is not a sustainable foundation on to which business ethics are successful. Indeed, even regulation and legislation can be tampered with, or highly influenced, through corporate lobbyism.
Therefore, the only way to secure sustainable, long-term and long-lasting ethical business conduct, is by making businesses *want* to innovate and change.
This is essentially what the stakeholder theory attempts to show the business sector: a new way of doing business is here, and it is better, for *everyone*. It is not a small claim to omit, but it is nonetheless quite possible, at least in theory. A big reason why there is optimism surrounding this potential success story, for the supporters of the stakeholder approach to business, is due to how *"Externalities, moral hazards, and monopoly power have led to more external control on managerial capitalism" (Freeman, 2001, p. 4).* It is simply a fact of life for managers and business owners to adhere to the wishes and normative direction of the external parts and agents of the society.
Freeman writes, that there exist two different understandings of what makes up a stakeholder *(Freeman, 2001, p. 5)*: a 'narrow definition' which includes the groups who are vital to the survival and success of the business – this is in opposition to the 'wide definition' which includes any group, or individual, who is affected or can affect the business. The wide definition is too big a size to properly include in the attempt to answer my problem statement, thus I shall focus on the narrow definition, which is the definition Freeman focuses on too.
With this in mind, an overview of the vital stakeholders is appropriate:

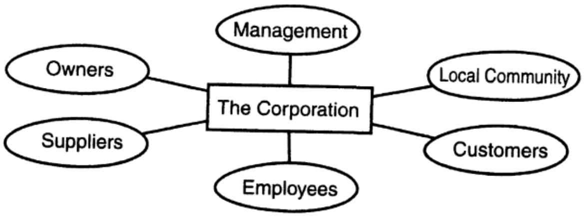

FIGURE 1. A Stakeholder Model of the Corporation.

This model *(Freeman, 2001, p. 5)*, shows each stakeholder and their direct relationship with the business. Of course, just how big of a relationship between each stakeholder and the business depends on a plethora of factors, both internal and external. However, even though the magnitude is unknown, the principal understanding of the relationship is all we really need to comprehend the idea of the narrow view of stakeholder theory. To understand the effect of each stakeholder towards the business, I shall now examine each further *(Freeman, 2001, p. 5-6)*:

- *Owners*, or shareholders/stockholders, hold a financial stake in the business, and aim to secure these financial assets provides an ROI in the form of dividends. The perception we have of shareholders, are often the board of directors, thus limiting the size of the owners, by numbers. However, many businesses around the world have shares for sale, hoping that individuals will buy and trade these shares so that the business can have a fiscal gain in the short term, in order to increase production or R&D momentarily, hopefully to create a long-term form of income. These shareholders are in effect owners but share very little responsibility once the point of purchase of the stocks have passed. Ownership in this context, means less than the ownership would do if the owners were a small group or even a single individual. The closer the person is to the actions of the business, the more responsibility they have.
- *Employees* might not necessarily have the 'most' at stake, but what they have in stake is rather big and direct; their livelihood and career, specifically. The relationship is mutually vital due to the lack of efficiency the business would have without employees, and how the employees would lack an income and thus a basis for their lives. Of course, this is the way it is in contemporary capitalism, but as we have seen, even proper use of governmental regulation could alleviate the burden falling upon the individual ex-employee were they to lose their job. However, the relationship is not simply as transactional as this; the employee also expects, or at least ought to, if in a position where it is possible, to do meaningful work. Meaningful work is not a guarantee in any job, but it is nonetheless a sought-after criterion by jobseekers. The more a business can offer when it comes to the potential for an employee to feel a sense of purpose in fulfilling their task within said business, the higher the chance for that particular business to attract employees faster. In return, the employees are happier and more productive at the workplace, thus once again showcasing how important a sense of 'belonging' matters in the world of business and jobs.

- *Suppliers* are vital due to the material they provide the business, thereby enabling production of goods, or provision of services. Interestingly, this relationship is two-fold, in regard to the business also being a customer to the supplier, thereby making the success of the business equally important for the success of the supplier. The relationship is simultaneously a business-to-business relationship, or B2B, thereby creating several bases for relationship. This does not make the supplier the most important stakeholder for a business, that depends entirely on the importance of what is supplied, and also on the relationship the supplier has to their *own* stakeholders. As businesses, they can forge trade agreements, further increasing the amount of ways the relationship can be improved.
- *Customers* are often seen as the most vital relationship a business can have, with good reason; they provide revenue for the business through purchase of their goods and/or services. Indirectly, the customers also finance the research and development, R&D, for the business, as well as paying the salaries of the employees – all of this to a certain extend only, of course. Without customers, there would be no business. But of course, the lack of any of the stakeholders, would mean the demise of the business, so to put all emphasis on the relationship with the customer, would not be sustainable. That being said, a distinguishing characteristic of certain companies which have performed better than their competitors, lies in their emphasis on the customer *(Freeman, 2001, p. 6).* Customers create more value than just the money they pay for the goods and services provided by the business; if the relationship is good, they will also talk about the business in a positive way within their own social circles, thereby creating more value than can even be measured in the bookkeeping.
  As mentioned earlier, in the ethics section on deontology, the Kantian principle of treating persons as ends unto themselves, creates an immensely effective approach to customer/business relations. Understanding the reasons why people chose your business over another, is essential, and resources should be allocated to this purpose. An example of a misunderstood relationship with the customers is mentioned below.
- *The local community* enables the business in building facilities, such as warehouses, factories, offices and so on. In return, the business pays taxes to the community through rental bills and creates jobs in the community. The business in such a setting should be treated, and act, as a citizen of the community, and by extension adhere to the laws, both legal and normative, of the local community: *"When the firm mismanages its relationship with the local community, it is in the same position as a citizen who commits a crime" (Freeman, 2001, p.6).*
- *Management* is different from the previous mentioned stakeholders, as it is not external in relation to the business. The biggest role of the manager is to manage the relations of the business to all other stakeholders, which obviously is a monumental task. The manager also has to decide, when, how and why some of the stakeholders will momentarily suffer the consequences of being put behind in the line of priority. If

wages are too low, the employees would be upset. If prices for goods and services are too high, the costumers are upset etc.

Dividends should go to all stakeholders, but what they *want* from the relationship with the business. I shall now go further into detail regarding the different stakeholders, with an extra emphasis on the inherent issues within each stakeholder relationship.

Freeman mentions, on the notion of employees, that singing the company song, ad wearing the company uniform to please the management, leads to distrust and an unproductive work force *(Freeman, 2001, p. 6).* The important thing to notice here, is how the relationship for the employee between them and the business is also determined by how they look at themselves as an employee; do they like the values they are to take on and share in the community? If not, the business stands to lose a lot of goodwill if the employee leaves and bad-mouths their former employer. An example of the opposite happening, if the values are aligned, is in the military: surely, they are regarded employees of the government, sing the national anthem (company song) and wear (company) uniforms, but seem to feel rather pleasant in their job and function. But why would a soldier be content with this? Most likely, it is because the sense of pride to be part of such an institution makes them feel a sense of 'belonging' when they have to abide to said requirements. They might even *want* to do so, as it connects them with the employer, their country, thus creating an immense sense of pride and meaningful work. My point here with this rather silly example, is simply, that the requirements put on the employee by the business, in theory, can have any outcome, whether positive or negative, depending on the intentions upon which the relationship was created in the first place.
Further examples can be made regarding the stakeholders, for example the relationship with customers based on the Kantian principle of treating people as ends unto themselves: I come to think of a business case competition a few years back, orchestrated by Salling Group. I was the only participant with any other approach than just pure business; that of business and philosophy. The task for us to solve, was to *increase the loyalty of Salling Group customers.* With this task in hand, everyone began brainstorming on ways to make people more loyal to Salling. Ideas such as apps which tracked the purchasing habits of customers, rewarding them with discount coupons upon reaching a certain cut-off in their shopping habits, thus trying to lure them back into the store through reduced prices. I tried to argue against the idea, stating that *loyalty* has to mean more than just the frequency of a visit based on prices and shop proximity; there will most likely always be a supermarket with lower prices or in a closer proximity to the customer – thus loyalty would mean that the customer returned *in spite of* the prices being higher, if they were, or the shop being further away from their home or workplace. The point here being, that loyalty is a concept which is built over a long period of time, and only if the *actual people* entering the store is of interest to the business beyond the purchasing power of each costumer. Thus, showing the effect the Kantian principle of treating

persons as ends unto themselves as rather important, if the business is interested in creating strong relationships with their customer base, which they absolutely should be.

I shall argue that the stakeholder relationship inherent with the local community is different than the others; it seems as the consequences of a bad relationship is simply less impactful than that of, for example, a bad relationship with the customer. When Freeman says that a business spoils the relationship with the local community, the business is in the same position as that of a citizen who commits a crime, he fails to elaborate on why this should be the case. The business could mismanage its relationship, without doing anything illegal, or anything of lawless impact. Even if the business *did* do something which was wrong, or maybe even directly criminal, it is far easier for a business to get out of such a predicament, as the responsibilities can be shifted around within a business, to secure a collateral punishment, which often is fiscal in nature. The issue here, of course, being whether the business has to care at all about the community, really. But according to the stakeholder theory, the local community is of equal important to the business as the customer, at least in principle. I regard this as a bit fantastical; if Amazon messes up their water outlet and it pours into the local lake instead of the sewer, I severely doubt this will have any big effect on them when it comes to the local community wanting them out. They are already there mainly for, presumably, cheap labour and tax levels. The only punishment I see here is the governmental one. Of course, this is different if it was not Amazon, but a local bookstore; Amazon can pay off the consequences rather easily, and it might in fact be cheaper for them to do so than to be ethical in the first place. Regulations are powerful, but seemingly not all-powerful. If the regulations are easy to avoid, like many companies in tax havens find a way to do so, or if the business has no care for the pollution it does, the local community could be regarded as the least vital stakeholder. Even though the moral thing *obviously* is to care for the local community, it seems as this relationship could be disregarded more easily than any other stakeholder. Freeman argues for the consequences for poor management of the relationship with the local community, would result in a breach in the social contract. But even if this is true, and it most likely is, it seems of less magnitude in terms of damage to the foundation of existence for a business, than it would be, if the supplier had gone bankrupt, as an example. Freeman mentions, how it is important for the manager to secure that all the needs of the stakeholders are met, somewhat. For example, if the local community want better parks and day-care facilities *(Freeman, 2001, p. 7)*, the business should seek to meet these needs. Now, this is where things get a bit interesting, because this requirement can be met through multiple different ways. But even before this, it seems fair to ask, whether it is the responsibility of a business to facilitate the foundation of a park – if yes, there are two very different ways this could be approached. One being the Friedman Doctrine, and simply let the municipalities, the tax collectors, pay for it 'themselves' through tax. Thereby, the business pays the price of existence within the society, but do not mandate what the money should be spend on, how it should be spend, and rather, whether it should be spent in the first place. Earlier, I argued against this point, as it generally is too simple to dismiss the ethical responsibilities of the business through the tax system. However, the other way for the business to facilitate the creation of the park, is to simply just do it, and then write it off as a tax exempt. This is not a new thing for big businesses to do: we see often, here in Denmark, generous 'donations' for the community, paid for by rich commercial enterprises. However, if the intent is to donate in this way, to avoid paying taxes, it is simply just the same, in effect, as paying taxes, but also getting free publicity out of it. Most would argue, that in principle, this is even worse than the Friedman doctrine, as the company dictates what the money is spent on instead of the politicians who are elected for office by the community itself, thereby securing their interests. But if the *best* solution is the Friedman doctrine, then surely the entire narrative is corrupt – at least this is what I would argue. The only real issue I see here, is that the local community simply is not a stakeholder of the same vital importance, than the other stakeholders. I therefore propose that the local community is removed from the 'narrow definition' to the 'wide definition' of stakeholder theory. The argument for the local community to be vital to the survival of the corporation, implies truth, only if the relationship is completely broken, and the business is forced to move out of the local community. Instead, in the 'wide definition', the business and the local community still have a relationship, but it can be neutral and still be satisfactory for both parties.

The responsibility of the managers is also even more grotesquely underappreciated. The examples mention above might be true, but the need to keep everything in balance is equally, if not more, important than simply keeping a few groups happy at a time. For example, if the salaries skyrocket, then the prices on goods would rise too, in order to keep up the income needed to pay the high salaries. Then customers would get upset and buy less, which would make the production higher than needed, thereby destroying the needed equilibrium of supply and demand. This would upset the suppliers, as they expect the increased amount of production material to maintain the same level of selling value to the business. Then the business would experience a set-back in the development of the business and the revenue income, which would upset the owners and their expected dividends. Evidently, the role of a manger is important, but also incredibly hard, in the stakeholder theory. To avoid this responsibility, the manager could be tempted to subscribe to the stockholder theory instead, thus only focusing on maintaining the good relationship with a single stakeholder, instead of several. However, as discussed several times in this thesis, the shortcomings of the stockholder approach neglect the need for ethical business conduct severely. There is no easy way around it; managers must be ready for the responsibility presently on their shoulders.
But to extend an olive branch here, it is important to note the immensely damaging effects it has to the manager, and by proxy the business and society as a whole, when the owners only reward short-term gains. Sure, short-term gains can be fine, they are gains after all and often result in nice dividends for the owners, and maybe even a morale boost for the employees of the business. But when the manager only cares for the short-term in order to deliver on his promises and keep his job, the devastating effects on the society will be felt in the future, due to lack of forward planning. For example, the United Nations Goals for Sustainable

Development all have a deadline which is a decade into the future. These goals, or SDG's, have been deemed immensely important by the member nations of the UN, and as a result hereof, it is expected for governments and businesses around the globe to follow and respect these goals, as well as implementing solutions within their conduct in order to be able to reach the goals before the deadline in 2030. Even then, the damaging effects on a business is evident too, as no business would survive very long if they only planned a few months ahead at all times. There needs to be a reformation of the way managers are viewed in regard to their responsibilities. In short, if they are treated as any other stakeholder, then there is room for all other agents of the stakeholder theory to help them carry the task. We can see this happening, in effect, when governments alleviate businesses who are going bankrupt due to no fault of their own, for example due to the COVID-19 pandemic, by giving them financial aid so they can continue their business. 'Continuing their business' in this sense, can be considered as equivalent to 'managing stakeholders'; the financial aid needs to be split and given to the other stakeholders such as the supplier and employees in order to maintain relationships and even the life of the business itself. The owners would be happy too, as they would no longer lose money. The costumers would also appreciate this, as they can now continue their living standards and everyday life, created by the business in the first place. Once again, I fail to see how the local community is vital here – but of course it would benefit too, even though they might benefit more from governmental aid directly, like funnelling of governmental funds into the municipality.

It is important to note, that the ethical value of the stakeholder theory relies heavily on which system is enabling the stakeholder theory in the first place. Just as I argued in the sections on capitalism and ethics, the system in which the business exists entirely changes the way we view and review business conduct within these spheres. Freeman points this out too:

> *"[…] we need arguments or further narratives which include business and moral terms to fill in the blanks. This normative core is not always reducible to a fundamental ground like the theory of property, but certain normative cores are consistent with modern understandings of property. […] But there are other institutions, other political conceptions of how society ought to be structured, s that there are different possible normative cores."*
>
> *Freeman, 2001, p. 8*

It is increasingly apparent, that the possibility of creating a singular normative proposition on ethical business is impossible, as there are too many shifting factors to consider, just like the frog in the pond with the surrounding environment. Luckily, theorists such as R. Freeman is aware of this issue and addresses it accordingly. This makes it easier to comprehend the intent of the theories laid out by these authors, whilst also showcasing the inherent issues in taking conceptual definitions for granted.

Freeman argues for a few different versions of stakeholder theory, to demonstrate the difference of intent in each one – the difference often being dictated by variances in normative conviction. However, Freeman proposes a listing of several principles, all of which are general in each variation of the stakeholder theory. He calls this 'the rules of the game *(Freeman 2001, p. 9)* and explains that these ground rules, or principles, are determined through self-interest that leads into a general good, if all the rules are to be obeyed. The rules start out as an intent to self-promote, then, but end up being good in a totality through mutual replication by the participants thus leading to a successful iteration of the stakeholder theory. It is in nature utilitarian and would thus be able to exist within the framework of contemporary capitalism. The ground rules are as follows *(Freeman, 2001, p. 9-11)*:

- *The Principle of Entry and Exit* is the first ground rule, and it dictates that every contract that is the business must have a clearly defined exit, entry and renegotiation conditions. It must have ways, through which each stakeholder is able to define such conditions and are thereby able to *when* an agreement exists in the first place and has a chance of fulfilment. Overall, the idea is to make every stakeholder able to leave the contract at any time, while also giving them the power to address the other stakeholders, reminding them of the contract they are in, and when it is valid.
- *The Principle of Governance* is the second ground rule, and it argues that any change in above mentioned contract, and thus the rules of the game, has to be agreed upon through unanimous consent. Effectively, this is a principle made to secure the continued rights of participation for each and every stakeholder. Is something in the contract to be changed, it must be so with the wants and needs of every stakeholder being met, so that there exist no cliques within the contract. There shall be no majority rule in stakeholder theory.
- *The Principle of Externalities* is the third ground rule, and it secures the continued agency of each stakeholder; if a contract between stakeholders A and B would impose a cost on to stakeholder C, then C has the right to become a party to the contract and has the power to renegotiate. This is to provide insurance that no one stakeholder can impose costs unto another, without the needs and wants of the other being heard and met. There is no scenario in stakeholder theory, where costs get moved unto other, without them explicitly allowing so.
- *The Principle of Contracting Costs* is the fourth ground rule, and it simply states that all parties in a contract must share the costs of said contract. The idea is to share the burden of the cooperative endeavour, thereby securing that no one stakeholder gets stuck.
- *The Agency Principle* is the fifth ground rule, and it has the intent to make sure that each agent within the stakeholder agreement must serve the interests of all stakeholders. It must also serve these interests, within the boundaries of the other principals.

- *The Principle of Limited Immortality* is the sixth and final ground rule, which dictates that the business should be managed in such a way that it can continue to serve the interests of the other stakeholders on the long term, thereby securing the stakeholders that the business is to continue its responsibilities and mission, even after a change in management or ownership has occurred. The business therefore has an obligation to the stakeholders in even the first step in recruiting a manager. The manager must have the interests of the stakeholders at mind when their new position goes into effect.

The sum of these six principles is what Freeman calls the *Doctrine of Fair Contracts (Freeman, 2001, p. 10)*. He argues, that this Doctrine functions as both a list of what is needed to implement and maintain a stakeholder relationship, but it is also a pragmatic guide to businesses on how to enact the stakeholder theory, with the duties this brings along.

The Doctrine of Fair Contracts might seem rather theoretical, and they are, but the pragmatic nature is easily spotted. His disclaimer from earlier, that the way you implement the stakeholder theory entirely depends on who the stakeholders are and in what environment you create such a contract. Actually, he doubles down on this exact point, the fact that the environment dictates the outcome of the contract and suggests three further principles to enable the inception of the stakeholder contract. These three principles are reserved to the regulating forces of the land, i.e. the government enabling and dictating the laws of the land. The principles laid out by Freeman is an attempt to nudge the regulating powers to reform the laws of corporation, thereby securing the stakeholder method to succeed *(Freeman, 2001, p. 10-11)*:

- *The Stakeholder Enabling Principle* is simply the principle securing the possible inception of the stakeholder approach to business relations. The regulating power should decide that corporations are to be managed in the interests of its stakeholders.
- *The Principle of Director Responsibility* ensures that the managers of the business have a mandated duty to care for the contract and use reasonable judgment to define and direct the affairs enabling the stakeholder theory in the first place. They are thereby responsible for directing the affairs of the business in accordance with the *Stakeholder Enabling Principle.*
- *The Principle of Stakeholder Recourse* enables the individual stakeholders to hold the managing power of the business accountable for failure to perform the required tasks and responsibility mention in the *Principle of Director Responsibility.*

These principles, Freeman argues, should secure the environment wherein the stakeholder theory should thrive. Note, that he does not mention socio-economic system in any of his doctrines. This is because there is no difference to the principles and inherent characteristics of the stakeholder theory whether it should exist in a capitalistic society, or a socialistic one.

As mentioned earlier, socialism ensures certain kinds of benefits and ethical conviction, but the intend of this thesis is to examine what iteration of capitalism would be most compatible with an ethical doctrine of today. As a result, we should regard the stakeholder theory as applied in a contemporary utilitarian capitalism, to ensure coherence in the focus of the thesis. Nonetheless, it is of importance to notice that most theories on how to conduct business take capitalism and the free market for granted necessities in their doctrine. It is therefore fair to admire the stakeholder theory for simply allowing different ethical and socio-economic systems to interact with it. The focus on principles of relationships and social contracts ensures that this is the case.
Overall, his approach is thoroughly theoretical, and he admits to certain points being underdeveloped. Nonetheless, the value of pure theoretical doctrine is important to recognize, as it lays out the groundwork for future expansion.

In total, the theoretical approach makes it more fitting for ethical scrutiny, but one issue which is often the case for trying to apply ethics onto business, is that theoretical ethics can be forced to fit pretty much any narrative, of you decide which specific parts of the business you want to ethically examine. Freeman acknowledges this in his 1994 paper:

> *"As long as the discourse distinguishes "business" and "ethics" we will need business ethicists to make it up as we go along – holding business, piece by piece, to the light of reason. And, as long as business ethics is separate, business theorists are free to make up supposedly morally neutral theories such as agency theory which can be used to justify a great deal of harm."*
>
> *Freeman, 1994, p. 5*

He calls the issue of separating business with ethics in discourse, as *The Separation Thesis*. It is rather difficult, of not outright impossible, to take all of ethics out of any single action in business conduct. For example, if a business decides to pay out dividends to the shareholders, instead of raising the salary for the employees, this is a choice with consequences. The consequences have positive and negative sides – it is thus a utilitarian dilemma, and ignoring this fact is simply silly. Even Aristotle, who I severely doubt gave much thought to dividends and salaries, argues that one cannot take ethics out of anything, as mentioned in the segment on ethics earlier on in the thesis. Freeman even argues that we can simply give up the separation thesis in the first place, thus enabling us to talk more about the essential parts of business ethics *(Freeman, 1994, p. 6).* The notion of powerlessness when it comes to ethical standpoints is damaging to the pragmatic, as well as the academic, approach to business ethics. Even on a grander scale, we see the power of conviction, if we are to deem anything just or unjust:

> *"Capitalism is allowed to function only because society allows it to function. The modern corporation (and similar forms of organization) is under attack because*

> *of manifest corruption and greed, harm to the environment, harm to stakeholders, and a perceived attitude of irresponsibility with regard to some of the actions corporations take. The sustainability movement grew out of societal forces more than corporate initiatives […] Also, new regulations tend to come from corporate inattention to things that are important to society. Consequently, firms should take the initiative and determine for themselves, and in advance of new regulations, boycotts, or bad press, what their responsibilities are to society."*

Freeman, 2018, p. 10

In short, the attention to the ethical conviction of the members of society is of immense importance to the business, there is simply no way a business can survive without care for the *final good* of the society. Even more so, Freeman argues that capitalism only functions because we allow it to do so. Moreover, one could argue that capitalism only functions *the way it does right now, in the iteration we right now deem the most ethical and best for us*, because we say so. As mentioned earlier on, no state is more ethical than the inhabitants of the country which the state governs, I believe that there is no reason why this notion should not be extended to the world of business.
The purpose of a business can thus become an ethical one, just as the purpose of the government could be interpreted as applied ethics for the benefit of the masses.

Purpose

"To say that the purpose of business is to make money, is to say the purpose of humans are to produce red blood cells"

R. Freeman, TEDx Talk 2013

To describe purpose, is to describe the conviction of any individual on the planet; it changes multiple times as we examine the purpose within each individual. As such, the concept of purpose is ever flowing, like a river, or *panta rhei* as the ancient Greek philosophers would call it. Even though a sense of purpose can be many different things to many different people, the purpose of business seems constant: to survive through profit maximisation. But as we have seen numerous times, this is not a purpose which fits the contemporary utilitarian capitalism, even in stakeholder theory this sense of purpose would forfeit the principles even before contractual inception. A sense of purpose can be interpreted as a goal for your existence, a validation of your convictions and fulfilments in life, as well as what you can do unto others and your community. It is therefore fair to assume, that a sense of purpose for a business is the attempt to *achieve* something meaningful. It is thus a defence of the reason behind your existence, so to say. Now, this might all sound incredibly tough, but purpose does not have to be an ultimate force or even an end goal in itself, it is about solving problems:

> *"Purpose should be neither mundane nor aspirational. It is not purely descriptive of what a business does – a mission statement – nor unrealistic about what it seeks to do – an aspirational vision statement to save the world. It is about solving problems, "to produce profitable solutions to the problems of people and planet" and "not to profit from producing problems for people or planet".*
>
> *Mayer, 2020, p. 6*

There is clearly a quality of action in such a statement of purpose. Solving problems is much more than just a mission statement, it is about *actually* solving the problems. The notion in the Mayer quote of producing profitable solutions, might sound like the purpose is all about profit, but it really is not. The purpose is entirely about solving a problem – the part about profiting because of this, is simply to ensure the continued services of the business, which we assume would be a net benefit, ethically, for the society.

So, we can safely call purpose for businesses *the reason behind their existence, and the intent to solve a problem within the physical world.*

Now, with this in mind, I would like to share some concerns I have with this sentiment, in one particular case: that of the *social entrepreneur.* Let us imagine, that a business is created with the purpose of making shelters for the homeless people of Copenhagen. Their criterion is building shelters made by sustainable materials, in parts of Copenhagen where it is not a general nuisance for the inhabitants of the city to walk by and look at, every day. Furthermore, the shelters need to be easily removed so they can be rebuilt just as easily in other parts f the city, maybe even in other cities. There seems to be no issue here, whether ethically or in regard to business strategy. The purpose is clear: create shelters for every homeless person in Copenhagen, with the end goal of no homeless being without shelter. The business earns the revenue through the municipalities buying the cheap shelters – the business itself manufactures the shelters and buys materials locally. So what would be the concern here?

My concern is that of an *existential* nature. For what is the basis of the existence of the business? Homeless people needing a shelter. And what is the goal of the business? For no homeless people to need a shelter. Clearly, there is a conflict of interest with the purpose in itself, and the basis of existence; effectively, the business *seeks out to eradicate the need for their own existence*. Now, in normal business terms this would be insane; it would effectively mean the death of the business by suicide. For example, why would a car company ever want people to take the train or the bus, instead of the car? They would lose customers.

Evidently, the issue here is not as big as one could fear. Often, the social enterprises, such as this fictitious one, end up thriving. They would either expand, or sell their idea to a different business, and then move into a new field. This is because, value-creation can be so much more versatile than simply monetary value:

"Purpose is therefore about finding ways of solving problems where profits are defined net costs of avoiding and remedying problems. By defining purpose and profits in this way, purpose is associated with enhancing the wellbeing and prosperity of shareholders, society and the natural world. It does not disadvantage any party because profits are only legitimate if they are not earned at the expense of other parties and corporate purposes are only valid if they are profitable in this sense."

Mayer, 2020, p. 7

A way to secure this sense of purpose in becoming common within the contemporary utilitarian capitalistic society, is through a proper understanding of the responsibilities the *owner* of a business possesses *(Mayer, 2020, p. 15).* Corporate governance is mentioned in the paper by Mayer, and is essentially an enlightened take on shareholder interests, with the regards to the consequences for other external parties *(Mayer, 2020, p. 16)*. If the focus is not on long-term value creation, and a respect of the responsibilities towards the society and externalities in general, then the business would lack the required forces to successfully adhere to a sense of purpose or mission. The idea behind long-term value creation is not reserved to the idea of purpose, of course, but it is important that the owners ensure the required resources to meet the goals of the business within the time frame it needs.
The business would be existentially be unwarranted if the strategy was not influenced by their purpose. As such, the somewhat flimsy understanding of purpose, aligns itself with ultimate pragmatic approach of a business strategy. The directors should:

"[…] determine their company purposes, ensure that their values and strategy are aligned with them, embed the values and strategy throughout their organizations, allocate the necessary resources and investments required to support them, and measure performance of the company and its people against them."

Mayer, 2020, p. 16

If the progress is not measured correctly, the entire idea of a strategic approach to business is thereby forfeit. Performance in regard to purpose is therefore paramount. Even more so, the business should counter underperformance in regard to purpose, if this was to happen, by reducing its stated profits and earnings available for outgoing payments in the form of dividends – it should have a reserve to rectify underperformance on the purpose *(Mayer, 2020, p. 17).* The purpose of the owner is therefore much more fleshed out and, arguably, more important than the purpose of an owner within stakeholder theory. However, both Mayer, Freeman and me in fact, all agree on the notion that *our economic system should be structured in such a way as to do what we want it to do (Mayer, 2020, p. 21).* This was simply not possible before the rise of modern capitalism, and by extent, contemporary utilitarian capitalism. If there is one thing to take away from this notion, it would be that of the incredible power of the everyday citizen, in their ability to mould the society in which we live and breathe, through their democratic right of voting in our best interest.

Stakeholder theory, and purpose – a discussion

To Freeman, the stakeholder approach to business also provides a significant change in the way a strategy is created. He argues that the stakeholder approach is able to provide a *single strategic framework*, which is flexible enough to deal with shifts in the environment in which the business exists, without the requirement of managers to regularly adopt new strategic approaches and plans, time and time again:

> *"The intention is to break the confusing circle of "environmental shift" → new strategic problem → development of new strategic framework → adoption of new strategic practices → new environmental shift → new problem."*
>
> *Freeman, 1984, p. 11*

The strategic process is managerial instead of a simple planning process. In fact, Freeman argues often for the benefits of the managerial approach to the stakeholder theory *(Freeman, 1984, 1994, 2001, 2018).* Evidently, we see the immense responsibility of management in his stakeholder approach, as examined in the segment above. Managers clearly have immense pressure on their shoulders to facilitate the success of the stakeholder theory, arguable more than any other stakeholder, as they necessarily need to nurture the good relations with each stakeholder, in a more direct way than for example the costumers need to nurture their relationship with the supplier. Even more importantly, the responsibility of keeping a balance of these relations fruitful for the business to enjoy. Freeman argues for the survival of the firm to be of central concern of the stakeholder approach *(Freeman, 1984, p. 12).* Specifically, he argues that the concern is that of *"the achievement of organization's objectives" (Freeman, 1984, p. 12),* which seems a bit confusing if compared to his other work indicating that survival is viewed as simply not perishing as a business, and so this characteristic does not seem to be inherently a trait of the stakeholder theory. There is more to it though:

> *"To successfully change course, management must have the support of those who can affect the firm and understand how the firm will affect others. […] Therefore, understanding stakeholder relationships is, at least, a matter of achieving the organization's objectives which is in turn a matter of survival."*
>
> *Freeman, 1984, p. 12*

The emphasis is on the healthy relationships with the various stakeholders, which does make sense, everything considered – but this does not really seem like a business fighting for survival. There is not a clear argument that the lack of good relationships would result in the death of a business, however one could imagine this being the result.

Additionally, Freeman argues that the stakeholder approach is both *prescriptive* and *descriptive*, rather than purely empirical and descriptive *(Freeman, 1984, p. 13).* While this is seemingly getting closer to a normative argument, there is still a lack in support for such a claim. It does get close, however, as there is an argument about how stakeholder theory is *creating* the environment in which it exists *(Freeman, 1984, p. 14).* This could be the pathway into very interesting takes on creation of ideal worlds for the business, whether it be in capitalism or not. A metaphysical approach to business is new, but surely a welcomed one as it does provide new ways of conceptualising business. It is important to note, however, that with the release of the 2018 book on Stakeholder Theory, Freeman argues for less normativity and theoretical approach in general and is arguing for a much more pragmatic approach for implementation of the stakeholder theory *(Freeman, 2018, chapter 6-7).* Even though this could seem as Freeman dismissing the theoretical nature of his argument, in favour for a more hands-on implemental approach, he does argue for the importance in understanding the value of each approach, though:

> *"It is very easy to misinterpret the foregoing analysis as yet another call for corporate social responsibility or business ethics. While these issues are important in their own right, enterprise level strategy is a differently concept. We need to worry about the enterprise level strategy for the simple fact that corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its products."*
>
> *Freeman, 1984, p. 16*

At this point in the thesis, I would like to summarize the qualities of stakeholder theory, before going into the criticism, and counters to the critique, surrounding it.

Evidently, the stakeholder theory combats one hugely important issue first apparent with the failures of modern capitalism: regarding the business as a lone actor in the world, is to misunderstand the very purpose of a business. Following this, Freeman proposes a counter, through stakeholder theory which is centred around dismissing the notion of the lone actor of business. Through integration of the different externalities in the society, the parties whose life and wellbeing are affected severely by the success of the business, which he names stakeholders, as they are holding a stake in the business. Now, with this, Freeman was able to forge a coherent theoretical approach to strategic management, which enabled the internalization of the externalities, previously mentioned as being paramount. This enables businesses to fulfil their duty to the society, the costumers, their own purpose etc. at the same time, through careful management of stakeholder relations, to the benefit of all stakeholders.

Well, why would anyone critique this idea then, if it solves all the apparent issues of capitalism, and the overly fetishized idea of self-reliance?
One popular critique is that of the *stakeholder paradox.* Basically, the stakeholder paradox claims that the "*Management appears to have a contractual duty to manage the firm in the interests of the stockholders and at the same time management seems to have a moral duty to take other stakeholders into account." (Freeman, 1984, p. 19).* However, I fail to see how this can be understood as a paradox. The word, *paradox*, is of Greek origin, meaning <u>para</u> = *against / parallel* with, and <u>dox</u> = *meaning*. But I see no contradiction inherent in the paradox mentioned here, unless you accept the Friedman doctrine as a natural law of economics and philosophy, which we of course should not. I do, however, recognise the difficulty for the manager to spin so many plates without dropping any, as does Freeman.
I openly dismiss this critique as holding any worth, though, instead we should take a look at the more modest critique from Mayer.
First, he comes with a small comment, in his paper on Business Purpose, in where he writes:

> *"[…] stakeholder theories are just a form of "enlightened" shareholder capitalism in which a recognition of the importance of stakeholders is beneficial for shareholders as well as for stakeholders. <u>There is therefore no inconsistency between stakeholder theory and shareholder primacy</u>."*
> *[emphasis through underlined text, made by the author of the thesis]*
>
> *Mayer, 2020, p. 5*

Here, he essentially echoes the sentiment which has been coherent throughout the thesis. The fact that stakeholder theory is an improvement on shareholder theory is a very simple comment, but encapsulates the idea pretty well, I believe. However, the real critique comes when we appreciate the immense difficulty of balancing all the relationships the business needs to cater. The critique is mentioned by Mayer in his paper, but is originally from Bebchuk and Tallarita, which he credits for this sentiment:

> *"The impracticality of stakeholder theories comes when one goes beyond this and suggests a "pluralistic" approach in which the interests of the stakeholders should be furthered in their own right, potentially at the expense of shareholders. […] this creates impossible trade-offs for companies in trying to balance, for example, the interests of the employees against customers in raising the wages paid to the former and the prices charged to the latter, current versus*

> *future employees in purchasing new equipment that benefits the latter at the expense of the former, and societies that suffer environmental harm from productive activities that create new jobs for employees."*
>
> *Mayer, 2020, p. 5*

This would go hand in hand with the sentiment of Milton Friedman, and his belief that the only true responsibility a business has is that to its shareholders, they are not elected to do anything else.
The main point Mayer wants to raise, however, is that the entire stakeholder vs. shareholder debate is vacuous and misses the point *(Mayer, 2020, p. 5).* He argues that the first step is defining what we need to achieve, after which he starts talking about business purpose, where the main points have been extracted above.

However, let us highlight this argument once again, in light of the critiques towards stakeholder theory. He argues that purpose is about finding ways of solving problems in a way that creates profit for the business seeking to solve the problem. Profits are then defined as the net costs of avoiding and remedying problems *(Mayer, 2020, p. 7).* Through such a definition of purpose and profit, purpose is then allowed to be associated with the utilitarian goal of enhancing wellbeing and prosperity of both the society in general, as well as shareholders and the natural world *(Mayer, 2020, p. 7).* This leads to no party gaining any type of disadvantage as profits are now always legitimate if they are not earned at the expense of other externalities, or parties. Additionally, business purposes are valid, only, if they are making a profit, due to this sentiment *(Mayer, 2020, p. 7).* This leads to the ultimate argument for Mayer to put forward, in an attempt to reconcile the pursuit of profit within stakeholder theory:

> *"Any purposes that satisfy these two conditions are therefore beneficial. They can vary from those that deliver maximum profits for shareholders, since profits are not earned at the expense of others, to those that deliver maximum benefits for other parties and minimal returns for shareholders. In Bebchuk and Tallarita's (2020) terms, purposes can support both instrumental stakeholder concepts that correspond with shareholder primacy and stakeholder plurality where parties other than shareholders are the primary beneficiaries. In neither case, does any party benefit at the expense of another and therefore the complex tradeoffs that concerned Bebchuk and Tallarita about stakeholder plurality do not arise."*
>
> *Mayer, 2020, p. 7*

This is the extent of his argument in his paper, but he did reconcile the idea of profit maximisation and stakeholder theory, at least theoretically. How we can make sure that no measurement of business is ever going to damage the natural world or society in any capacity, is tough. Additionally, we are unable to accept this measurement were we to accept net profit as an indication of good. This would of course align well with utilitarianism and the idea of any ethical sum above zero being a morally good – but every individual, including entities like businesses, should aim for higher standards than barely positive. If a business earns an incredible profit for doing good in Norway, but their supplier from Saudi Arabia is using slave labour, how would we deem that a good? Even if we accept that outcome as a net positive, ethically, what does that say about our intent to change the world ethically, through business?

Nonetheless, Mayer has found a way to make use of stakeholder theory, in a setting more resembling our current socio-economic world.

Conclusion

As Mayer would put it, the purpose of the business was ignored for far too long. As a result of this, the business was allowed to act on a basis of self-interest, which for a long time was accepted. With the rise of contemporary capitalism, we saw an increased interest in what role the business has to its surroundings, whether that be the society in which it exists, the natural world, the inhabitants of the society etc. Because of this, there was a need for a different business approach. The suggestions on how such a shift could look like has been manifold. I decided to focus on stakeholder theory, but quickly realised that there was no way I could fairly analyse the effects of stakeholder theory, were I not to understand the world in which businesses reside. Therefore, I decided to look at capitalism, then ethics, and then business in the end.

In the section on capitalism, the historical nature of the concept was laid out, as the importance of this development is not to be dismissed. Freeman, too, spent time on the historical aspect of the socio-economic structures which create the playing field for businesses to exist in. All conceptual analysis was chosen on behalf of their importance in answering my problem statement: *Is capitalism compatible with an ethical system, and how does this reflect into business?*

Quickly, it was rather apparent that the only way that capitalism could be compatible, was if we focused on the contemporary setting of capitalism, as this is the iteration where the stakeholders who currently have a stake in businesses, reside. It is of no use to ponder on early capitalism, and its compatibility with a contemporary business setting, but it was however important to understand the context through which the modern capitalism was born. It was decided that *contemporary capitalism*, or at least, the current iteration of capitalism which coincidently is also the iteration with the most regulation, would be easier to fuse with the current ethical conviction of the modern society.

Before going into ethics, there was a need to understand the concepts of *efficiency, profit, ownership* and *responsibility*. While it may have looked like a simple analysis, it proved immensely useful for our understanding of the stakeholder theory, and Mayer's addition to this theory, later in the thesis.

In the section of ethics, I decided to not analyse all the three major schools of ethics, as *virtue ethics* is severely less systematic in its nature, thus much harder to deem compatible with capitalism or not. Utilitarianism and deontology were therefore the only concepts needed to analyse here, and it turned out that deontology has a very hard time adding any kind of value to a business, other than the overwhelmingly short amount of time it takes to make an ethical decision. The Kantian principle of treating peoples as ends unto themselves, proved to be of major importance though, especially as we delved into stakeholder theory later on. Utilitarianism is systematically aligned very well with capitalism, and if regulated properly, is very well suited for a socio-economic scale.

Thus, I believe I can answer my problem statement as follows:

Capitalism is compatible with the ethical doctrine of utilitarianism; if the iteration of capitalism is the contemporary definition, and regulation is being forced through a democratic and utilitarian method.

This still leaves the question of business, however.

Through business responsibility and purpose, we saw how a business is able to produce a lot of good for the societies they are a part of. However, the lone-agent idea of shareholder theory which early capitalism and its failings helped manifest in our mind as the way to do business, required a revisit. R. Freeman suggested the stakeholder theory, through which he necessarily creates a relationship between the business, and all the stakeholders of the business. The stakeholders being anyone whose happiness is depending on the success of the business. Happiness being the final good, and ultimate goal, according to Aristotle, suggested that this would fit well into the contemporary utilitarian capitalism which we subscribed to.

The issues of stakeholder theory are not manifold, but they are severe in nature; the difficulty for the manager to uphold good relations with every stakeholder is a momentous task. Mayer suggested an iteration of the stakeholder theory, in which we would redefine profits and purpose to cater to an alliance between stakeholder theory and shareholder theory. Through this, we are able to alleviate some pressure of the manager, thus more evenly distribute responsibility throughout the stakeholders, which Freeman suggested himself is the correct approach, through his six principles.

Thus, I believe I can answer the final part of my problem statement as follows:

The contemporary utilitarian capitalism affects business in the way that it creates requirements for ethical behaviour and solutions to the problems of society. Through the stakeholder theory and iteration of Mayer, we are able to provide such a scenario. With the support of Collier and his sentiment of the ordinary citizen being required to act as the police-force of our society, holding businesses accountable to their impact, we have the possibility of going with this sentiment fully into stakeholder theory.

The quickest answer, to me, to many of the problems mentioned by both Freeman and Mayer, is that of co-operatives. It is inherently a stakeholder approach, in a lesser scale, but theoretically sound with the ideas.

Ultimately, I feel confident in stating, that capitalism can be ethical, but with heave scrutiny and conviction, as capitalism in itself offers no ethical claims. Businesses, however, *do* have the intent to do good, at least in theory, but have become tarnished in their reputation. A way out of this is to forge better relationships with the inhabitants of society, thereby creating an environment for all to prosper in, just like the frog prospers in its pond, with fresh grass surrounding it.

Literature

John Mackey, *Conscious Capitalism* - 2014, Harvard Business School Publishing Corporation

R. Freeman, *Stakeholder Theory* – 2018, Cambridge Universal Press

R. Freeman, *A Stakeholder Approach to Strategic Management* – 1984, downloaded from http://papers.ssrn.com/paper.taf?abstract_id=263511

R. Freeman, *A Stakeholder Theory of the Modern Corporation* –2001, downloaded from https://philpapers.org/rec/FREAST-4

R. Freeman, *The Politics of Stakeholder Theory: Some Future Directions* – 1994, *Business Ethics Quarterly 4:4*

Aristotle, *The Nicomachean Ethics* – 350 BC, downloaded from http://classics.mit.edu/Aristotle/nicomachaen.1.i.html

Adam Smith, *Wealth of Nations* - 2007, downloaded from https://www.ibiblio.org/ml/libri/s/SmithA_WealthNations_p.pdf

Colin Mayer, *The Future of the Corporation and the Economics of Purpose* – 2020, Oxford University

Paul Collier, *The Future of Capitalism* – 2018, HarperCollins *Publisher*

Immanuel Kant, *Grounding for the Metaphysics of Morals: With on a Supposed Right to Lie Because of Philanthropic Concerns* - 1785 (my version is from 1993), Hackett Publishing Company

Milton Friedman, *A Friedman Doctrine – The Social Responsibility Of Business Is To Increase Its Profits* - 1970, The New York Times. Downloaded online from https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html

ALL INDICATIONS OF PAGE NUMBERS IN THE LITERATURE, IS BASED ON THE PAGE OF THE PDF READER, NOT NECESSARILY THE PAGE INDICATED WITHIN THE DOCUMENT. I CHOSE TO DO SO, AS MANY DOCUMENTS HAD NO PAGE NUMBERS.