FROM VIRTUE ETHICS TO VIRTUOUS CORPORATION - PUTTING VIRTUES INTO BUSINESS PRACTICE

YING WANG, DEPARTMENT OF MANAGEMENT COMMUNICATION, UNIVERSITY OF WAIKATO, NEW ZEALAND

This paper aims to contribute to a greater understanding of the theory of virtue ethics in its application in the business arena. In contrast to other ethics approaches, virtue theory emphasises the virtues and moral characters of the individual as moral agent. As such, the theory of virtue ethics provides a useful perspective in making sense of various business ethics issues through placing an emphasis on the moral character of the individuals, and its transformational influences in driving ethical business conduct. Drawing from van Marrewijk's (2003) theory of agency and communion in understanding the corporate sustainability value systems, as well as Moore's (2002, 2005 & 2008) conceptualisation of Alasdair MacIntyre's philosophical approach to ethics, the paper presents a theoretical framework that seeks to explain how individuals, as moral agents, can serve to promote virtuous business conduct and help foster a moral and ethical climate in the organisation as well as society at large.

Keywords: Business ethics; corporate social responsibility; virtue ethics; social entrepreneurship; sustainability; sustainable enterprise; transformational leadership; value creation; value systems; agency; communion; practice-institution schema

INTRODUCTION

Thirty or forty years ago, Albert Carr's (1968) Is Business Bluffing Ethical, in which business ethics was compared with the game of poker, and Milton Friedman's (1970) The Social Responsibility of Business is to Increase its Profits, whose title says it all, were reflective of dominant thoughts in the domain of business ethics. Today, sustainable development is among the top agenda not only in the political and social arena, but also as a commonplace discussion in the business sphere. Even John Elkington's (2001) 'Triple Bottom Line', now widely cited in academic literature and business documents, in which business is prompted to seek beyond the financial bottom line and pursue environmental quality and social equity, has been deemed by some as inadequate. One most notable example, is Norman Wayne and Chris MacDonald's Getting to the Bottom of Triple Bottom Line, published in
2004, in which they heavily criticised the proposed framework, on the grounds that its operating principle is vague and that the method of social reporting is ineffective, to say the least.

The change of attitude, in respect to the understanding and expectation of business' responsibility, is indicative of an evolving social context. This provokes new challenges to the field of business ethics in understanding key issues such as what is considered as ethical business conduct, what drives such conduct, and how business should understand as well as act upon its place in society in aligning with evolving social moral and ethical values. In considering these issues, this paper seeks to make a theoretical contribution to the field of business ethics with a particular focus on the theory of virtue ethics. Drawing from both van Marrewijk's theory of value systems and Geoff Moore's study on MacIntyre's practice-institution schema, it proposes an explanatory framework that conceptualises the importance of individual values and beliefs in driving virtuous business conduct and fostering an ethical corporate and social climate.

The paper begins with a discussion on the changing social context for business, drawing primarily from van Marrewijk's theory of agency and communion in understanding the corporate sustainability value systems. Then, it discusses virtue ethics and its application in the business context, especially in understanding transformational leadership and social entrepreneurship. Next, it discusses further virtue theory and its application in the context of business ethics, drawing mainly from Geoff Moore's work on MacIntyre's practice-institution schema. Finally, it conceptualises the importance of virtue theory in business ethics studies by bringing together van Marrewijk's framework of value systems and Moore's discussion on business practice.

**The Change of Value Systems and the Theory of Virtue Ethics**

At the heart of changing social contexts and attitudes lies an evolution of social value and belief. Van Marrewijk and Werre (2003), drawing from Clare. W. Graves' thoughts on human value systems, argue that each value system will develop when the older system is no longer meeting the challenges and threats of its given life conditions. In response to changing circumstances and new opportunities, they state: "[I]ndividuals, organisations and societies develop adequate solutions, creating synergy and adding value at a higher level of complexity" (p. 109). In the context of corporate social sustainability (CSR), for instance, organisations' sustainability practices are oriented and sustained by different value systems.

Van Marrewijk and Werre provide a comprehensive framework, aligning six value systems to various levels of organisations' ambition towards corporate sustainability. On one end of the spectrum, when the dominant value system of an organisation ascribes to Energy & Power, it has no ambition towards corporate sustainability and is primarily interested in power and domination. The next two levels show higher ambition towards corporate sustainability but are either compliance-driven (Order), which is mostly subject to regulations, or profit- driven (Success), promoted by self-interest. While the Community level of existence consists of organisations that genuinely care for human potential and the planet, Synergistic organisations seek for solutions that balance the needs for all economic, social and ecological systems. Finally, the highest level of existence is a holistic system, in which corporate sustainability is fully integrated and embedded in every aspect of the organisation.

For van Marrewijk (2003), Arthur Koestler's concept of 'holon' and 'holorchy', further developed by Ken Wilber, provides a useful approach in explaining the complex process whereby each value system emerges and transcends the older system. A 'holon' is simultan-
eously a whole and a part ascribing to changing contexts. 'Holarchy', then, describes the process whereby holons transcend and include their predecessor(s) while forming a hierarchical system of constantly evolving whole/parts. Van Marrewijk further elucidated that each 'holon' has its *agency*, which expresses its wholeness with self-preserving and self-adapting capacities, and its *communion*, which expresses its partness with self-transcending and self-dissolving capacities.

A mainstream corporate response to issues surrounding corporate sustainability, for instance, is the advocacy of a voluntary approach which promotes business self-initiative and self-regulation. Organisations that adopt this approach demonstrate a strong exercise of their *agency* capacities in struggling to preserve conventional business order while adapting to a changing social context. However, subject to the growing dissatisfaction of the business voluntary approach, the *communion* tendency of business will then exercise its transcending as well as dissolving capacities and promote more substantive change in business practice. The conflict between rights and responsibilities therefore, according to van Marrewijk (2003), is a form of tension between *agency* and *communion*, while all four capacities constantly negotiate over, and struggle for, priorities, principles and values in response to changing circumstances.

This then begs the question: what motivates business to develop and move to a higher level of value system? Business ethicists have long strived to provide business with normative guidance, seeking stances on various moral and philosophical frameworks (Donaldson & Dunfee, 1994). One of the ethics theories, which has received increasing attention from business ethicists, is the theory of virtue ethics. In *Evolution in the Society for Business Ethics*, Koehn (2010) notes that the recent movement in business ethics has shown more interest in virtue ethics (specific individual virtues or quasi-virtues such as integrity, trust and justice) and that ethicists have been "more willing to let the phenomena suggest possibly relevant standards or virtues instead of applying pre-existing frameworks to problems" (p. 748). According to Hursthouse (1999), virtue ethics, following primarily the thoughts of Plato and Aristotle (in particular), is a normative ethics approach that emphasises virtues and moral characters. Distinct from other moral theories, as noted by Arjoon (2000), virtue theory "grounds morality in facts about human nature, concentrates on habits and long-term goals, extends beyond actions to comprise wants, goals, likes and dislikes, and, in general what sort of person one is and aims to be" (p. 173).

In placing an emphasis on individual's moral character, the theory of virtue ethics provides a useful explanatory framework in understanding how individuals in the business context act to promote virtuous business conduct. In CSR literature, for example, there has been growing interest in the application of virtue theory in understanding how individuals provide moral leadership in promoting a sustainable path for their organisations. These individuals, in van Marrewijk's (2003) conceptualisation, promote substantive change in the organisations and therefore help foster the transcending process of the social value systems. The next section will look at some application of virtue theory in the business context, with a specific focus on transformational leadership and social entrepreneurship.

**VIRTUE ETHICS, TRANSFORMATIONAL LEADERSHIP AND SOCIAL ENTREPRENEURSHIP**

The theory of virtue ethics has demonstrated its applicability in the writings of many scholars from the field of business ethics, especially on the topic of leadership. Whetstone (2001), in *How Virtue Fits within Business Ethics*, argues that virtue ethics provide business managers and leaders with practical applications in promoting moral development and moral reasoning. This is because, he notes, virtue ethics is both *personal*, in focusing on the
motivations of the actor and the sources of action, and contextual, by highlighting the importance of understanding the environment as it affects both the moral agent and the act itself. In addition to providing practical guidance for business leaders, virtue ethics has also become an important category in understanding the ethics of leadership itself. Price (2004), for instance, notes that distinct from a utilitarian point of view that focuses on overall utility maximisation and Kantianism’s emphasis on universal principles, virtue ethicists would argue that ethical leadership depends more on developing habits or dispositions to act virtuously.

Evidently the theory of virtue ethics has been used by many business ethicists to advance the studies of leadership ethics. For instance, in the context of corporate sustainability, there has been growing interest in the role of transformational leadership in promoting sustainable business practice from the perspective of virtue ethics. According to James Macgregor Burns (1978), transformational leadership reflects the high moral and ethical standard of the leader where he or she seeks to “raise the level of human conduct and ethical aspiration of both the leader and led, and thus it has a transforming effect on both” (p. 20). The emphasis of virtue ethics on individuals as moral agents, therefore, makes it a useful perspective in understanding the moral characters of transformational leaders and their practice (Bass & Steidlmeier, 1999). In considering virtue theory and its applicability to leadership, for example, Arjoon (2000) argues that what distinguishes a good leader is that “he or she is relatively more developed in the virtues and that person has a clear vision of the common good and the means to promote it” (p. 172). Thus from a virtue ethics point of view, according to Koehn (1995), the important ethical matter is that individuals must be able to make contributions of value to a society or communal enterprise and that the virtuous agent simply is the person habituated to desire to do what is good and noble.

Similarly, the theory of virtue ethics has also been applied to the studies of social entrepreneurship and sustainable enterprise. In understanding various aspects of social entrepreneurship, Sullivan Mort, Weerawardena and Carnegie (2003) argue that the key features of social entrepreneurship include not only its concern and commitment in the social domain, and the entrepreneur’s leadership aptitude and exceptional capacity, but also the virtue and moral characters of both the entrepreneur and the enterprise. As Roper and Cheney (2005) point out, private social enterprises are often led by value-driven, charismatic leaders who style themselves and their organisations as both innovative and socially responsible. Using the examples such as the founder of the Body Shop, Anita Roddick, Roper and Cheney (2005) also point out the importance of the character of successful social entrepreneurs. They argue that the reasons behind these successful social enterprises share in common the entrepreneurs’ vision of socially responsive business and their ability of instilling such values in the organisation.

Indeed, as Pratt and Pratt (2010) put it, what is truly fundamental to successful social enterprises, those that end up transforming their business and society, is the virtue and moral character of these social enterprisers. In other words, a successful sustainable enterprise must be anchored in, and sustained through, a moral purpose: a deep and genuine concern for the environment and the society. Being a successful social enterpriser then, returning to Bass and Steidlmeier (1999), is a way of embracing virtue and morality; and a way one engenders virtue in self, others and society through the example and virtuous conduct of social enterprise.

Furthermore, the value of transformational leaders and social entrepreneurs lies not only in their success in creating a sustainable business, but also in the moral influence they place on others, their organisations and the society at large. In applying van Marrewijk’s
(2003) framework, these social enterprisers can be seen as moral agents who promote the evolving process of social value systems by stimulating the transcending and dissolving capacities of the organisations and the society. Virtue ethics, in placing an emphasis on moral character, provides a useful way for understanding how individuals' ethical and moral beliefs can transform conventional self-serving business practice into virtuous business conduct. Drawing from Geoff Moore's work on MacIntyre's practice-institution schema, the next section will discuss the intricate connection between the virtue of individuals and virtuous business practice.

**FROM VIRTUE ETHICS TO VIRTUOUS CORPORATION**

In presenting an 'Aristotelian approach' to business, Robert Solomon (2004) argues that key to the application of virtue theory to business ethics, is the consideration of "the place of business in society". He proposes that we understand the place of business in society from a virtue ethics perspective, in which business is viewed as "a human institution in service to humans and not as a marvelous machine or in terms of the mysterious 'magic' of the market" (p. 1024). Using the Aristotelian concept of Polis (the larger community an individual belongs to), the author argues that an individual's virtue and character is embedded in, and in service to, the larger community. As a member of the larger community, therefore, business excellence is characterised not only by its superiority in practice, but also its role in serving larger social purposes. Paramount to such conceptualisation is the recognition of the human features and aspects of business. For Solomon then, there is a clear, yet much denied, linkage between the ethics of business and the ethics of human virtue - after all, business is a human enterprise.

Echoing Solomon, Geoff Moore's approach to business ethics also features a key emphasis on the influence of human behavior in the business world. Drawing extensively from Alasdair MacIntyre's philosophical approach to ethics, Moore's understanding of business ethics places a focus on how an individuals' virtuous conduct can bring out the human aspects of business (see: Moore 2002, 2005 & 2008). According to Moore, MacIntyre's practice-institution schema is a valid framework in understanding virtue ethics and its application to business. MacIntyre defines practice as:

Any coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realised in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended (MacIntyre, 1985, p. 187, as cited in Moore, 2002).

Central to MacIntyre's conceptualisation of practice is the concern of 'internal goods', and to achieve that, one must appeal to the standards of excellence through the exercise of virtue. In MacIntyre's notion of practice, simply put, the internal goods is about one feeling good about what he or she does and that such feeling of 'good' must be based on, and derived from, the virtue and moral character of the individual. Business as practice, then, is the consideration of business as a form of such practice, where individuals in business should strive to realise the internal goods about doing business and achieve excellence through virtuous conducts. The sustainable enterprises discussed above are vivid examples of *business as practice*.

In MacIntyre's practice-institution schema, institutions, on the other hand, are con-
cerned with 'external goods' such as money, power and success. Institutions sustain practices by providing bearers for practices and at the same time, the internal goods of practices are always vulnerable to the competitive and corrupting power of institutions (Macleintyre, as cited in Moore, 2002). In Moore's understanding of the practice-institution schema, then, the institutions can be viewed as a collective mechanism that emphasises the functionality of business. In contrast, the practices of business focus on the process whereby the imperative of virtue brings out the human aspects of business through individuals' realisation of their internal goods and achievement of excellence. Whereas institutions act to constrain practices, the practices of business, through the pursuit of internal goods, have the potential to 'moralise' the institutions.

A moralised, virtuous corporation, in Moore's conceptualisation, is one that understands that the pursuit of excellence is ultimately a moral pursuit and hence seeks to encourage it. For Moore (2002), "it is precisely in the interplay between the practice of business and the corporation in which it is embedded, in the interplay between internal and external goods, that exciting possibilities exist for business and for business ethics" (p. 30). Moore's (2005) attempt of 'humanizing business' demonstrates an approach of understanding business and business ethics in focusing on the individuals in business and their moral capacity as well as constraint. In a similar vein, Hemingway (2005) has argued that personal morality is an important factor in considering corporate social practice because individuals' own personal values can become a catalyst that inspires and fosters responsible corporate behavior.

In van Marrewijk's theory of value systems, the struggle between an individual's as well as a corporation's collective pursuit of internal goods and external goods corresponds to the interplay between agency and communion. The next section will link the two conceptual frameworks and argue how together they strengthen the case of virtue theory in business ethics inquiries.

**Virtuous business practice and the transcendence of social value systems**

In linking the practice-institution schema to Marrewijk's value systems, the pursuit of external goods can one the one hand be viewed as a system exercising its agency capacities in preserving its old order and identity. On the other hand, the pursuit of internal goods can act to mobilise a system's communion tendencies that seek to dissolve older identity and transcend to a higher order. In the ongoing tension and interplay between agency and communion, the pursuit of internal goods and external goods constantly negotiate priorities and orders until these exercising capacities reach an internal homogeneity at a given level of complexity. According to van Marrewijk (2003), a social value system is destabilised when the social context changes and that it can no longer produce adequate solutions to its social problems. The increasing social and political pressure placed on the corporate landscape acts as such a catalyst to demand as well as promote change in the value systems in the business world. However, for a transcending process to occur, the communion capacities - the pursuit of internal goods - must exhibit strong tendencies to disrupt older value systems and beliefs. Further, such transcending process can only be stabilised when the agency capacities - the pursuit of external goods - adapt to the newer level of complexity.

While the pursuit of external goods is determined by business' institutional characteristics and its reliance on the market mechanisms, the pursuit of internal goods is derived from the moral and ethical character of the individuals in business. In the context of CSR, for example, as Smith (2003) put it, there is a 'business case' argument as well as a 'normative case' argument. The key difference between these two cases lies in the distinction between enlightened self-interest and a desire to do good. Whereas the 'business case'
premises on the evaluation of financial validities of CSR practices, the 'normative case' is based on concerns for ethics, value and morality. Interestingly recent CSR theorising has shown a growing tendency in linking the two cases together by constituting the business case arguments in terms of values and ethics.

For instance, Kurucz, Colbert and Wheeler (2008), in their chapter in The Oxford Handbook of Corporate Social Responsibility, have organised the existing reviews and models of the business case arguments for CSR into four modes of value creation, from trading, adapting, aligning, to relating. Each category of the business case indicates a company’s involvement with and commitment to CSR activities, presupposed by the corresponding value proposition. At a more practical level as well, business CSR advocates such as Jackson and Nelson (2004), have sought to promote the integration of values into core business strategies and activities for 'delivering value with values'. Along with the increasing attention on value-based arguments, CSR studies have seen a growing popularity in the discussion of individuals' and organisational integrity. Integrity in CSR inquiries often appears alongside discussions of value, morality and ethics. For instance, some have argued that integrity is a significant ethical standard (Brown, 2005) and that organisational integrity exists when an organisation has a moral climate (Bowie, 2010). One notable feature of integrity-centered discussions has been the development of an integrity-based approach to ethics management and how such management and leadership can result in the nourishment of such moral climate and organisational integrity (Kaptein, 2003; Kennedy-Glans & Schulz, 2005; Palazzo, 2007).

The embracing of ethics and quasi-values in CSR studies reflects a changing social and business context. Paine (2003), in Value shift, asserts that we are in the midst of a fundamental value shift that is altering how companies are perceived and how they are expected to behave. In Kurucz, Colbert and Wheeler’s (2008) study for example, what is fundamental in the shifts of the four value propositions, from trading to relating, is business' interpretation and definition of its place in the society, from business-centric (only consider CSR as a trade-off) to the view of business as an integral part of the society. In such a changing context, older corporate order and identity is no longer sufficient in providing solutions to its social problems and thus has to be dissolved and evolve into a newer system of orders and values. Thus whereas the business case highlights the business' preserving (agency) tendency, where the institutional pursuit of external goods is encouraged and presupposed by the mechanisms of the market, the normative case argument exhibits the transcending capacity (communion) of business, where the pursuit of internal goods finds rationales in normative narratives and intrinsic values.

The argument for a normative case highlights the importance of virtue theory because it places an emphasis on individuals' values and moral convictions in understanding business practice. The possibility of a normative case exists in our understanding of business as a human-based social entity or, as Solomon (2004) has put it, a human institution in service to humans. According to Arjoon (2000), the pursuit of internal goods corresponds with a state of 'being', whereas external goods correspond to a state of 'having'. The author posits that it is only under the state of 'being' that we can fulfill our true potentialities that cannot be accomplished or satisfied by a state of 'having'. Following this thought, at the core of the normative case then, is the return of the issue - how business should be - to the question of 'how people should be'. As demonstrated in the many examples of transformational leaders and successful sustainable enterprises, when individuals act as moral agent, not only their values and ethical pursuits weigh at the core of business sustainability decision-makings, but also their virtuous conduct help foster, and in turn be sustained through, a virtuous environment.
CONCLUSION

The paper discusses the theory of virtue ethics and its application in explaining the ascending power of the individuals in driving virtuous business conduct and fostering the transcending process of the corporate value systems. It shows that virtue theory provides a useful explanatory framework in making sense of various business ethics issues through placing a focus on the moral character of the individuals and its transformational influences in promoting ethical business conduct. A further implication of the virtue ethics theory, in its emphasis on human values and morality, lies in its conceptualisation of business as a human enterprise with embedded ethical and moral values. In such conceptualisation, the fundamental issue of business ethics becomes the question of how individuals, as moral agents, can serve to promote virtuous business conduct and help foster a moral and ethical climate in the organisation, as well as society at large. As such, we return the issue of business ethics - how business should behave - to the question of 'how people should behave' and how we can fulfill our true potentialities in our state of 'being'. As the individuals within business make their pursuits of internal goods, they realise the vision of business as 'a human institution in service to humans'.

In an evolving social context, business is placed under increasing pressure to incorporate social and environmental values in its practices. Lying with such a challenge, however, are many exciting opportunities for business to re-define its place in society and promote new models of practice that suit its changing social status as well as expectations. While business, as an economic entity, must strive to prosper, its social side of identity determines that it has to align with new or emerging social standards and norms that constantly change the conception of what is considered as excellent business practice. In viewing business as a human enterprise, we may focus our attention on exploring new ways of promoting an integrative capacity whereby human values and morality can be transformed into business practice in fostering a moral social climate and cultivating the transcending processes of social value systems.

REFERENCES


Hemingway, C. A. (2005). Personal values as a catalyst for corporate social entrepreneur-


