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Economics and Business Ethics: A Three-Level Model of Business Ethics and Implications for the Friedman Theorem

Abstract

Much contemporary business ethics theory and practice proceeds in a behavioural tradition, for example as virtue-theory based business ethics or Kantian stakeholder management. An economic approach to business ethics maps out an alternative approach to this behavioural tradition. Social behaviour is then conceptualised as a capital utilisation process; institutional structures which regulate behaviour are examined as incentive structures; mutual gains are stipulated as interaction outcome for cooperation to materialize; and in heuristic perspective, an economic approach to business ethics builds on the ideas of economic man (homo economicus) and the idea of a dilemma structure (such as the prisoner's dilemma). On this basis, a three-level model of moral agency can be set out that distinguishes (1) passive, unintentional moral agency, (2) passive, intentional one, and (3) active, intentional moral agency. Applying this model, the paper develops a new interpretation of the Friedman theorem on business ethics.

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The dominating approach to much business ethics theory today is a behavioural one in the tradition of Kantian stakeholder management or virtue-theory based business ethics (Bartlett and Preston, 2000; Carroll, 1991; Evan and Freeman, 1993; Izzo, 2000; Moore, 2002; Siu et al., 2000). This approach tends to overlook and undervalue economic issues that affect the practice of business ethics. Critical questions are here whether certain economic constraints limit the scope of business ethics but also whether business ethics can be economically enabled. Various ideas of this new, economic approach to business ethics were outlined by Wagner-Tsukamoto (2003, 2005, 2007a). At a very basic level this approach to business ethics conceptualises social behaviour as a capital utilisation process; institutional structures that regulate behaviour as incentive structures (governance structures); mutual gains as necessary interaction outcome for cooperation to materialize in social exchange; and the heuristic ideas of economic man and a dilemma structure.[1]

The analytical starting point of the economic approach to business ethics I am going to outline connects to a very well established principle in moral philosophy, namely that any moral 'ought' or precept implies a practical 'can' or competence on behalf of the moral actor. For example, if a bystander encounters a drowning person at a lakeside the bystander is expected to jump into the lake and save the drowning person – but only if the bystander can swim. Practical competence relates in this example to the ability to swim. Much behavioural business ethics research may undervalue or even ignore this idea when it requests firms to engage in certain business ethics programs independent of economic considerations and constraints.

In the following, three levels of moral agency are discussed from an economic perspective. Each implies certain conclusions regarding a practical 'can' for firms to engage in business ethics. Three different types of business ethics behaviour of the

[1] The outlined approach to business ethics only applies the ideas economic man and dilemma structure in heuristic perspective but not in empirical-behavioural or moral-normative one (Becker 1976; Friedman 1953; Homann 1994; Wagner-Tsukamoto, 2003, 2007c).

firm are distinguished: (1) Passive, unintentional moral agency; (2) passive, intentional one; and (3) active, intentional one. In a final part, the paper applies this three-level model to a new interpretation of the Friedman theorem on business ethics.

I. Passive, Unintentional Moral Agency: The Moral Quality of Competitive Market Ordering

In my outline of business ethics, I take the concept of the market economy for granted. A market economy is generally characterized by competitive processes in firm-firm interactions. Economics in the classical tradition of Adam Smith and Bernard Mandeville, as also taken up by Milton Friedman or similarly by Friedrich Hayek (Friedman 1962, 1970; Hayek, 1960, 1976, 1979; Mandeville, 1988; Smith, 1976), has always argued for competitive market ordering on moral grounds, that it yields morally and socially desirable outcomes such as the 'wealth of nations' but not just the wealth of a few and that it supports moral ideals such as liberty and freedom. It is very important to note here that these moral outcomes of competitive market ordering are achieved *unintentionally* through competitive firm-firm interactions. By behaving in a merely self-interested way, aiming at its own profit, the firm contributes – unintentionally – to larger social goals. In this respect, one can speak of passive, unintentional moral agency of the firm (Wagner-Tsukamoto, 2005). At this level of moral agency, a moral 'ought' for corporate behaviour refers to profit-oriented behaviour (as captured by Friedman's famous thesis) and the practical can refers to a firm's capabilities to deliver desirables goods and services to its stakeholders in a profitable way. In general, behavioural business ethics (e.g. Bartlett and Preston, 2000; Etzioni, 1988; Sen, 1990; Simon, 1993) tends to struggle with this concept of business ethics which understands corporate business ethics as *unintended* result of *self-interested* choice and *competition* (the latter implies non-cooperation in social exchange). This approach basically also assumes, in the tradition of Friedman, that moral agency of the firm, such as philanthropic donations, are costly *and* unprofitable (This assumption is later relaxed in my discussion in section III).

A moral by-product of this approach to business ethics is that it accommodates for value pluralism as an interaction condition[2] of social exchange. For competitive interactions in a market economy to succeed, only mutual gains need to be assured as interaction outcome but value profiles of interacting agents, whether they are homogeneous or conflict with each other, do not matter.

II. Passive, Intentional Moral Agency: Moral Quality of Institutional Business Rules

In a market economy, corporate behaviour is constrained by institutional rules, such as business laws (e.g. competition laws, consumer protection laws, etc.). The works of Buchanan and Williamson detailed such an approach with regard to 'public order structures' (mainly laws) and 'private order structures' (mainly organization structures of the firm) (Brennan and Buchanan, 1986; Buchanan 1975, 1987a, 1991; Williamson, 1985). Through such rules, moral minimum standards are enacted on all firms and this is done in a competition-neutral manner since obeying laws implies same costs of moral agency for all firms. Regarding such rule-following behaviour, one can speak of passive, intentional moral agency of firms: In most cases, firms intentionally obey laws (or break them) – but still, this kind of moral conduct is of a rather passive nature since it just involves the obeying of rules set by a higher authority. Regarding the sanctioning of laws, economic considerations apply: expected sanctions for breaking a law must be higher than expected gains from breaking a law (Becker, 1976, 1993; Brennan and Buchanan, 1986; Buchanan, 1975; North, 1993; Vanberg, 1988, 2001). Otherwise, rule breaking is economically induced. The sanctioning of rules is clearly an economic issue, too.

In this understanding of business ethics, morality is systematically located in the 'rules of the game.' The actual moves of the game, that means exchanges between

[2] The 'condition of modernity' arises here (Gerecke, 1997; Luhmann, 1984, 1988). In modern, pluralistic interaction contexts, behavioural ethics, such as Kantian duty ethics or Aristotelian virtue ethics, may run quickly into problems. Such scepticism is shared by economic philosophy (Buchanan, 1975, 1987b; Homann, 1990, 1994, 1997), systemic sociology of society (Luhman, 1984, 1988) and probably already the Old Testament (Wagner, 2001; Wagner-Tsukamoto, 2007b). An economic approach to business ethics can handle modernity because it does not build on a value consensus for social interactions to succeed.

the firms and its stakeholders, remain moral-free (apart from the moral standards that are enforced through laws). Quite many laws enable in this way business ethics up to a certain standards, for example, consumer protection laws or laws that grant shareholders certain information rights. Other laws may constrain the practice of business ethics, for example, laws which enforce competition on firms or bankruptcy laws (Wagner-Tsukamoto, 2005). They quite actively prevent a firm from spending resources on costly business ethics programs beyond the rules of the game since bankruptcy might loom, or a competitor can gain an advantage by being less moral, by just playing by the moral minimum standards set for firms by laws.

There are limits to which moral agency can be enacted through laws. Only moral minimum standards can be enacted but not some utopian level of business ethics behaviour of the firm. For example, a corporate tax law which set the taxation of profits at 85 % – with the intention to use 'confiscated' profits for good social causes – is likely to undermine the market mechanism and take away the incentive for many entrepreneurs to set up a firm in a market economy. Governance structures have to be 'incentive-compatible' to use a term of Williamson (1985, p. 76). A further limit to codifying moral agency in institutional structures is presented by the internationalisation and globalization of markets. In the global arena, national markets differ regarding the 'height' of moral minimum standards. Many developed countries may have quite 'tough', high moral minimum standards which impose considerable costs of moral agency on firms. Lesser developed countries may impose lower moral minimum standards and thus gain a competitive advantage over developed nations in attracting firms from more tightly and more costly regulated countries (Vanberg, 2001). A key implication is here that on global markets, the enactment of moral minimum standards has to be approached through international agreements at a governmental level.

III. Active, Intentional Moral Agency: Ethical Capital and Stakeholder Management

So far, this paper only conceptualised business ethics in passive terms: firstly, as unintentional moral agency that reflected larger social and ethical goals accomplished through self-interested behaviour; and secondly, as passive, intentional moral agency that reflected the obeying of institutionally enacted moral rules, such as business laws. Apart from the obeying of institutional rules, market behaviour as such remained in these previous conceptualisations 'moral-free.' This reflects the classical and neo-classical understanding of economics that the 'moves of the game' are not to be infused with moral considerations when the question of business ethics is raised. In the following, a third economic route is discussed how business ethics can be conceptualised and here proposals are made regarding the conceptualisation of business ethics in the actual 'moves of the game.'

Previously, the assumption was made that business ethics is costly *and* unprofitable. This view considerably limited the scope of business ethics, especially the voluntary pursuit of business ethics in the moves of the games. In the following, this assumption is critically examined and given up and thus a third route of a 'practical can' for business ethics is outlined. It is suggested that corporate moral agency can create additional revenues that cover the costs of moral agency and then (and only then) moral agency is sustainable in the moves of the game (above moral minimum standards enacted through public ordering). In this respect, insufficient corporate moral agency is analysed as a capital utilisation problem: as the inadequate availability of ethical capital in firm–stakeholder interactions. Ethical capital reflects the additional revenues created by corporate moral agency, such as a price premium paid by an ethical consumer for an environmentally friendly product. Ethical capital basically reflects a price premium put by a morally high-minded stakeholder on corporate moral agency. 'It indicates an agent's economic willingness and resourcefulness to pay for active moral agency of the firm' (Wagner-Tsukamoto, 2005, p. 82).

Ethical capital can be created by both the firm and its stakeholders. On the one hand, managers can play a very active role in creating ethical capital. For example, the Bodyshop developed an internationally successful enterprise for the production and retailing of cosmetics and toiletries by endorsing certain ethical ideals in its production and selling philosophy, such as the avoidance of animal testing, the support of community projects, the support of farmers in developing countries through 'fair trade' initiatives, etc. Another example is the company Lawson in Japan which set up a special retail chain for organically and environmentally friendly produced groceries. Typically, such products like the products of the Bodyshop, cost more than conventional products. But apparently, both companies have been highly successful in developing substantial niche markets in which ethically high-minded consumers are very willing to pay a price premium. On the other hand, ethical capital can be created by the stakeholders of the firm. For example, constant consumer demand for greener, environmentally friendlier products, supported by pressure group action such as consumer boycotts of certain firms and products, has induced many firms in the cosmetics and toiletries industry in Europe, North America, or Australia to include green options in their production program and to take a more restrictive policy on animal testing. Governments, the judiciary, or pressure groups can initiate the creation of ethical capital, too (Wagner-Tsukamoto, 2005, p. 83).

Following this approach to business ethics based on the idea of ethical capital, economic interactions between firm and its stakeholders ('the moves of the game') do no longer resemble a moral-free zone, as postulated by classical and neo-classical economics. In the discussed model, corporate moral agency increases the competitive advantage of a firm, its survival prospects and its profitability. In line with active, intentional moral agency of the firm, corporate moral agency is transformed into a valuable economic asset. The production of this asset – of ethical capital – is likely to be costly, at least more so than conventional business behaviour (otherwise we would have little debate about business ethics). So the question arises who pays the additional costs? The answers outlined in this paper aim at the stakeholders of the firm, such as ethically high-minded consumers, employees, or shareholders. Thus, the question of business ethics is re-directed to the stakeholders of the firm, away from the managers of the firm (but, as discussed, managers can and possibly should take a very active role in creating ethical capital for stakeholders, thus enabling business ethics to be viable, at least in niche markets). The related stakeholder model of the firm is a strictly hypothetical one: Stakeholder interests in and demands for ethical products and services are only fulfilled by the firm as far as this can be done in a profitable manner. Business ethics rests on the profitable production of ethical capital. This approach to stakeholder management is clearly an instrumental, strategic one but not an unconditional, deontological one, for example, a Kantian approach to stakeholder management (e.g. Buono and Nichols, 1990; Evan and Freeman, 1993).

In line with this economic approach to stakeholder management, conflicts between stakeholder interests and values are resolved in a strictly economic manner, too. The interests and values of those stakeholder groups are paid primary attention to which have the biggest economic impact on the firm (in particular its profitability).

An economically dominant stakeholder group can be distinguished in this respect. Conflicting interests and values of other stakeholders which have less of an economic impact on the firm are downgraded or entirely ignored if they cannot be reconciled with the interests and values of economically dominant stakeholders.

Finally a note on the conceptualisation of stakeholders of the firms in terms of their ethical profile and in terms of which ethical theories should be drawn upon to discuss and conceptualise ethical behaviour of stakeholders. This issue is basically not of interest to the present paper and is hence left open. In the presented economic model of stakeholder management and ethical capital it does not matter greatly whether stakeholders are conceptualised as dutiful, virtuous, utilitarian or religious persons. All that matters is the idea of the 'ethically high-minded stakeholder.' Whether such an ethical stakeholder is motivated by duties, by virtues, by religious beliefs, or by utilitarian considerations is insignificant.

Before this paper moves on to apply the outlined three-level model of business ethics to the Friedman theorem, a preliminary summary and some conclusions are proposed. From the previous discussion it became clear that there are various ways in which business ethics can be conceptualised from an economic point view that paid close attention to the principle that a 'moral ought' implies a 'practical can.' Firstly, unintentional, passive moral agency implied a moral quality of profit-oriented behaviour of the firm as such. 'Moral ought' and 'practical can' were here interpreted with regard to profit-oriented behaviour of the firm that considered economic issues, such as consumer demand, competitive advantages, etc. In the classical and neo-classical tradition of economic studies, unintentional, passive moral agency is linked to ethical ideas such as the creation of the wealth of nations or rising living standards for all. Secondly, intentional, passive moral agency referred to the obeying of institutionally enacted rules, such as business laws. 'Moral ought' and 'practical can' were here encountered in a more direct way. Laws lay down moral minimum standards for all players in a market economy and they do so in a competition-neutral manner. A 'practical can' for business ethics is so established by enacting moral minimum standards in a market economy. Laws impose same costs of moral agency on all firms. This means, no firm suffers disadvantages through corporate moral agency. Thirdly, active, intentional moral agency refers to the creation and exchange of ethical capital in firm–stakeholder interactions. The 'moral ought' is here linked to the managerial ingenuity and possibly even responsibility to create ethical capital that gives a firm a survival advantages or competitive advantages. Such advantages directly reflect a 'practical can' for establishing business ethics. As noted, the proposed outline to business ethics is an economic one, but one which leaves room for behavioural ethics, in particular with regard to the ethical education of stakeholders.

IV. An Application of the Proposed Three-Level Model of Business Ethics to the Friedman Theorem

In 1970, Friedman proposed his famous theorem on business ethics which stated that it is the only social / ethical responsibility of firms to increase their profits while staying within legal and ethical rules. Over the decades, then and now, there has been much criticism of Friedman. Many writers attacked his position by coming from a behavioural ethical position, such as duty ethics (e.g. Kantian stakeholder management), virtue ethics, or religious ethics (Desjardins, 1993; Evan and Freeman, 1993). A main criticism has been that Friedman viewed business ethics as incompatible with profitability and that ethical managerial concerns in the running of a firm are sidelined in his approach (Chryssides and Kaler, 1993, pp. 231-233; Hoffman, 2002, pp. 716-719; Mintzberg, 1995, pp. 205, 214-215; Weiss, 1994, pp. 76-77). In the present paper, I critique Friedman on his own ground – on economic grounds – rather than submitting him to behavioural ethical criticism which is largely incommensurable with his economic approach. My critique of Friedman's theorem does not reject his key ideas but positions them and revises them in economic terms. For developing this critique, I apply the three-level model outlined above. The model distinguished moral agency at three levels, firstly, with regard to the self-interested engagement of the firm in the market economy which should lead to the accomplishment of larger, social goals; secondly, the obeying of moral minimum rules, largely legal ones, that are institutionally enacted; and thirdly, the creation and exchange of ethical capital in firm–stakeholder interaction which infused the moves of the game with corporate moral agency. With regard to levels one and two, the following discussion positions the Friedman theorem in economic terms; with regard to level three, Friedman's position is revised in economic terms (For a detailed outlined of this critique, see Wagner-Tsukamoto, 2007a; also Wagner-Tsukamoto, 2005).

IV.1. Friedman on Self-interested Market Behaviour of the Firm as Moral Agency

A key idea of Friedman's view on business ethics was that the only social / ethical responsibility of firms is to increase their profits. He, in the tradition of the early economists, such as Adam Smith or Bernard Mandeville, subscribed to the view that self-interested behaviour of the firm reflected a moral ideal. Goodpaster and Matthews (1993, p. 271) here correctly suggested that in the view of Friedman and of classical economists deliberate 'amorality' (self-interest) is encouraged in the name of 'systemic morality' of the invisible hand. Specifically, Friedman quite explicitly endorsed Adam Smith's view that the invisible hand of the market led to the greater good of society. The idea of passive, unintentional moral agency, as spelled out above, is here clearly visible in Friedman's writings.

Friedman linked the idea of the greater good, to which the market economy is meant to contribute, to consumer issues, employment issues and shareholder issues. He suggested that consumer interests are best served through a market economy that supported competition on product markets; he also suggested that jobs are better created by a market economy than another system of organizing economic activity in society, and that shareholders would benefit most from a market-oriented system. Besides this market-oriented ideals that are expected to result from self-interested behaviour of firms, Friedman, not dissimilar to Hayek (1960, 1976, 1979), associated certain political ideals with a capitalist system, namely the preservation of political freedom and the prevention of the discrimination of minorities (see especially Friedman, 1962).

IV.2. Friedman on the Moral Nature of the Rules of the Game

Friedman always qualified his views on business ethics, that the only social responsibility of firms were to maximize profits, with regard to institutionally enacted rules. He stated:

> The responsibility is to conduct the business in accordance with the stockholders' desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom. (Friedman, 1970/1993, p. 249)

In general, and as others have noted (Novak, 1996, p. 141), the obeying of legal rules and ethical codes reflects no small 'moral agenda' (see also Carroll, 1991, p. 43; James and Rassekh, 2002, p. 255). Quite a number of critics of Friedman overlook this important qualification made by Friedman regarding the pursuit of profit maximization (e.g. Desjardins, 1993, p. 137; Mintzberg, 1995, pp. 214-215; Mulligan, 1986, p. 265; Smith, 2002, pp, 232, 235). What legal rules amount to is quite clear. Above, section II provided an interpretation. However, questions arise regarding what Friedman actually meant by 'ethical custom'? In particular, can Friedman's suggestions on ethical custom be linked to an idealistic agenda for altruistic, corporate philanthropy or Kantian stakeholder management? A starting point for clarifying this issue is to realize that legal rules reflect ethical customs that have been laid down in laws. In relation hereto it can then be proposed that the notion of ethical custom, as used by Friedman, refers to not yet codified laws. Friedman's second version of his theorem on business ethics supports such an interpretation:

> There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud. (Friedman, 1970/1993, p. 254)

The second version of his theorem spells out the substance of both legal and ethical rules: the endorsement of open and free competition and the avoidance of deception and fraud. All these issues are subject to legal regulation but Grey areas and unregulated areas remain. Friedman's notion of ethical custom can thus be related to such not yet codified areas that concern open and free competition and the avoidance of deception and fraud. Apparently, by 'ethical custom' Friedman did not have in mind some idealistic agenda for altruistic philanthropy or Kantian stakeholder management. This would also have been quite irreconcilable with his general views on business ethics.

Friedman (1970/1993) was quite implicit on a systemic, ethical quality of the rules of the game and how the state was to ensure high levels of competition and the avoidance of fraud and deception in a market economy. But then, Friedman (1962) had quite explicitly spelled out such a role of government. He then interpreted the rules of the game as the unintended outcome of ethical custom which had been codified by government and transformed into laws. He stated that an 'umpire', a referee, is needed to set out and enforce the rules of the game (Friedman, 1962, p. 15): Government is the '… forum for determining the "rules of the game" and as an umpire to interpret and enforce the rules decided on.' In line with these insights, ethical custom apparently reflects future input to legislation but not an agenda of social responsibilities of firms. To a degree, Friedman's theorem on business ethics can thus be reduced to 'playing the market game within legal rules.'

Friedman's elaborations on the rules of the game and what they reflected closely match what was discussed above in section II as institutionally enacted moral minimum standards for corporate behaviour. Friedman was very much aware that in a market economy moral agency of firms had to be systemically enacted through the rules of the game and that government had to play a key role in this respect.

IV.3. Economic Revisions to the Friedman Theorem: Morality entering the Moves of the Game?

Besides unintentional, passive moral agency and intentional, passive moral agency, as it was identified for Friedman's writings on business ethics, the question of active, intentional moral agency has to be directed at Friedman. And here it becomes quickly clear that Friedman overlooked this important area of business ethics behaviour of the firm. He limited his understanding of business ethics to unintentional and intentional, passive moral agency for two reasons. Firstly, he held the view that acts of social / ethical responsibility of the firm were incompatible with profitability. He gave here the specific example of reducing pollution beyond what was required by law. Secondly, he put forward the view that acts of social responsibility of the firm which were profitable could not be judged as ethical behaviour but merely as self-interested behaviour. His underlying (behavioural) ethical principle was that 'social good must not be done for reasons of profit' (Chryssides and Kaler 1993, p. 231; Wagner-Tsukamoto, 2007a, p. 215). I question both these views of Friedman in turn.

Friedman proposed that acts of social responsibility were incompatible with profitability. He did not see that at least some stakeholders of the firm – ethically high-minded ones – might be very happy to pay a price premium to the firm for ethically responsible behaviour exhibited by the firm. The issue of ethical capital, how it can be created by the firm and its stakeholders and how ethical capital can be exchanged and traded between firm and its stakeholders was not seen by Friedman. He only viewed business ethics and corporate social responsibilities as unwelcome 'taxation' that reduced the profits of the firm (Friedman, 1970/1993, p. 252). As discussed above in section III, at least in niche markets, ethical capital can be profitably created and as a result, profits of the firms, its competitive position and survival prospects can improve. To some extent, one may have to forgive Friedman for this oversight since in his time ethically high-minded stakeholder behaviour was quite rare. But this is no longer the case. At least since the late 1980s, many European markets, the North American markets, Australia, and more recently also Far Eastern markets have experienced the influence of ethically aware consumer behaviour, investor behaviour, pressure group action, etc. (e.g. Wagner, 1997).

Friedman rejected the idea of active moral agency for a second reason, namely that business ethics behaviour of the firm which were profitable could not be viewed as ethical behaviour but only as self-interested behaviour. Friedman argued here like a behavioural ethical thinker in the tradition of duty ethics, virtue ethics or a religious ethics (e.g. Chryssides and Kaler, 1993, p. 231; Hoffman, 2002, pp. 718-719; Stone, 1995, p. 145). He argued that if noble behaviour is pursued on grounds of self-interested motivations, then such behaviour can no longer be viewed as noble or ethical; it would only reflect prudential or self-interested behaviour. Friedman (1970/1993, p. 253) even called such profitable behaviour which firms conducted under the heading of corporate social responsibility as 'hypocritical' and 'fraud.' This argument of Friedman only holds as long as one subscribes to a motive ethics, such as duty ethics, religious ethics, or similarly virtue ethics, in order to morally evaluate behaviour. But it no longer holds if one chooses a different type of ethics for evaluating behaviour, such as a utilitarian or consequentialist ethics. Following a utilitarian, consequentialist approach, motivations do not matter when the moral status and moral quality of behaviour is assessed. What only matters, are the outcomes of behaviour. If the outcomes of behaviour are socially beneficial – the greater good of society being realized –, then an act is judged as ethical. Following this line of argumentation, business ethics behaviour of the firm which also happened to be profitable can still be judged as ethical behaviour. It only has to be ascertained that ethical outcomes were achieved, too, for example, a firm reduced pollution voluntarily beyond what was legally required. For instance, many electricity companies in Europe or North America now offer green energy to customers which was produced with a low impact on the natural environment. Such energy tends to be more costly to produce; but in niche markets, the offering of such energy has still proven to be profitable since environmentally aware consumers are happy to pay a price premium for green electricity. From a utilitarian point of view, such business behaviour can be judged as ethical but probably less so from a virtue ethics, duty ethics, or religious ethics point of view since the profit motive is still there when companies produce green energy.

It is quite fascinating that Friedman, who normally connected to a rather orthodox, classical approach to economic analysis, followed behavioural ethical principles when assessing the question of whether self-interested behaviour could be judged as ethical. It can be argued that utilitarianism or consequentialism provides the more suitable ethical doctrine for economics to philosophically ground the ethical evaluation of economic issues. To a degree, one could even argue that the entire endeavour of economic analysis and research is utilitarian and consequentialist in nature. That Friedman followed a behavioural ethical line of argument may in this respect be interpreted as an interesting 'inconsistency' in his approach to the economic analysis of questions of business ethics. But anyway, Friedman's behavioural ethical judgement that 'good should not be done for reasons of profit' reflects a value judgement on ethical doctrines, namely that a behavioural ethics, such as virtue ethics, duty ethics, or religious ethics, were superior to utilitarianism or consequentialism. One generally does not have to follow Friedman here. A pluralistic approach may be more advisable, different types of ethics being tolerated side by side. This insight is already sufficient for the purpose of our discussion to discount Friedman's implied argument that behavioural ethical principles should be applied to questions of business ethics and related issues of profitability.

V. Conclusions

The paper distinguished business ethics behaviour of the firm with regard to a three-level model: firstly, unintentional, passive moral agency which reflected the pursuit of self-interested behaviour of the firm and which unintentionally contributed to the achievement of social, ethical outcomes, such as the wealth of nations, rising living standards, etc.; secondly, intentional, passive moral agency which reflected the obeying of institutionally enacted rules, mainly legal ones and which led to the realization of moral minimum standards of corporate behaviour across the market as a whole; and thirdly, intentional, active moral agency which infused the moves of the game with ethical consideration by means of creating and exchanging ethical capital in firm-stakeholder interactions.

This model enabled us to re-interpret and revise the Friedman theorem on business ethics. It was clarified that Friedman's suggestions on business ethics can be easily realigned with levels one and two of the proposed model. Friedman was clearly aware that self-interested behaviour of firms in a market economy came with an ethical quality; for example, consumers benefiting from competition on product markets. Friedman also clearly realized that the obeying of laws reflected moral agency of the firm, namely the playing by the rules of the game. However, one important issue was overlooked by Friedman regarding the scope and feasibility of business ethics in a market economy. He did not realize that the moves of the game could also become subject to business ethics considerations. He was here outspokenly critical that the moves of the game should remain free from moral considerations (apart from legally enacted ones).

On the basis of the discussion led in this paper, Friedman's stockholder model of the firm can be revised in economic terms. It can be developed into an instrumental, strategic approach to stakeholder management – one which paid particular emphasis to the concept of ethical capital and the creation and exchange of ethical capital in firm–stakeholder interactions. Such an approach to stakeholder management is still quite far away from ethically idealistic ones, such as Kantian stakeholder management. In the proposed strategic approach, stakeholders are viewed as important economic factors that affect the optimising of stockholder wealth. The question can in this respect be raised whether such instrumental stakeholder management reflected ‘business without ethics’ (Goodpaster 1991, p. 60). This question leads back to the question how to normatively ground stakeholder management and the economic analysis of the firm in general. Goodpaster, like Friedman, here seemed to have in mind a behavioural ethics. On this basis, they condemned self-interested, instrumental stakeholder management. The present paper made here a different proposal to resolve this issue, namely to normatively ground stakeholder analysis and business ethics analysis in utilitarianism and consequentialism. This allows for a positive, ethical evaluation of instrumental stakeholder management and of business ethics behaviour of the firm which at the same time aimed at the profit motive.

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