

**Business and the Eudaimonic State:
A Neo-Aristotelian Approach to the Conduct of Business**

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Abstract

This thesis is primarily concerned with the tension that exists between those who claim that the conduct of business should be exclusively in the interest of the owner and those who believe that business has responsibilities towards society generally. The outcome of the research is to establish a manner in which business might be conducted so as to satisfy at least some of the principal demands of the two opposing parties. The distinctive contribution the thesis makes to the existing literature is to describe and defend, from basic principles, an innovative form of business accreditation which respects both the primacy of owners and the interests of other stakeholders.

The philosophical approach taken in the thesis is Neo-Aristotelian. It is Aristotelian in the sense that it concerns the idea of happiness as involving the acquisition and exercise of virtue. It is Neo-Aristotelian in the sense that, unusually, it treats virtue metanormatively, rather than in the normative manner of conventional Aristotelian thought. The research is also Aristotelian in that it employs the technique of dialectic in order to preserve as many as possible of the conflicting arguments.

The research begins by establishing an understanding of happiness that is sufficiently objective to form the basis of a political system. It goes on to give an outline of the eudaimonic State, a State which embodies such a system. The role of business in a eudaimonic State is investigated and compared with the purpose an owner might have for a business. Based on this investigation, the principles of Ethical Naturalism are applied to establish what constitutes a good business. Finally a form of business accreditation is proposed that provides owners with control over the conduct of their businesses whilst aligning them with social needs through the formation of partnerships with local communities.

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Author's declaration

None of the material presented within this thesis has previously been published or submitted for consideration. The work has not previously been accepted in substance for any degree and the thesis has not been presented to any other University for examination either in the United Kingdom or overseas.

Except where stated by reference in the text, all of the work contained within this thesis represents the original contribution of the author and appropriate credit has been given where references are made to the work of others.

Introduction

This thesis is motivated largely by my experiences as a director of a UK public limited company trading in the sub-prime sector of the financial services industry in the 1990's and early 2000's. During this period I became increasingly uncomfortable with the direction which I believed businesses were being required to take. I perceived that the idea of "shareholder value" was beginning to dominate discussions concerning the strategic management of business and share price movement was a daily concern for executives. Listed companies, such as that of which I was a director, were closely monitored by market analysts who, collectively, created an expectation of a level of profit the business would make. Such was the influence these analysts exerted that their expectations became targets for the business; of such importance that failure to achieve them could result in a significant fall in share price. This was the case even if reported profit exceeded that of the previous year. If the business failed to meet analysts' expectations the business was deemed to have failed to maximise shareholder value and suffered the consequent possibility of a fall in share price.

These were potentially significant consequences that had a strong influence over how the business was conducted. Amongst other things, a fall in share price made it more difficult for a business to raise the capital it required in order to continue its pattern of year on year growth. Furthermore, as some measure relating to share price was almost certainly one of the measures used to evaluate individual performance, a fall in share price would tend to lead directly to a reduction in executive remuneration.

In parallel with the pressure to maximise shareholder value there was an increase in interest in the concept of Corporate Social Responsibility (CSR). There was a growing concern that the single-minded pursuit of profit was causing collateral damage to society as a whole. Large institutional investors, such as pension funds and insurance companies, came under pressure to hold shares only in companies that could demonstrate that they were acting responsibly towards "society". If a business failed to satisfy a major investor that it was socially responsible it risked the possibility of that investor selling its shareholding, with the likely consequence of a fall in the all-important share price. In response to these developments, businesses devoted considerable resources to managing their approach to corporate social responsibility and organisations representing institutional investors issued guidelines indicating how businesses should demonstrate their social responsibility.

The net effect of these two sources of pressure on the conduct of business resulted in businesses engaging with social issues, but, in my experience, only in a manner and to an extent that did not reduce shareholder value. Demands for a reduction in the amount of energy and materials that a company consumed made sense to the extent that it resulted in reduced costs. However, initiatives that involved costs, such as reducing levels of pollution below those demanded by law, would be resisted.

This principle also applied to the manner in which business engaged with the community. For example, in the business with which I was concerned, community involvement was limited to projects that met CSR guidelines but did not incur costs incommensurate with the benefits of enhanced reputation that such projects engendered. For example, one such project involved building a playground for use by disabled children. Whilst this was of value to the charity concerned its contribution was not measured against the overall needs of the community in which the charity was located. In fact it was selected from a list of candidate projects largely on account of its perceived public relations value.

However, my main concern regarding the nature of community engagement was that the projects involved did not relate to the core activities of the business. My conception of social responsibility involves the idea that businesses are part of a community and that their responsibility in some way involves contributing to the goals of that community. To my mind the kind of projects described above were consistent with the idea of “putting something back” into society but not with “engaging with society”. A more useful project, I felt, might have been to use the expertise of employees in order to, say, offer evening classes in household budgeting. However, this ran the risk of reducing demand for credit products and, thereby, potentially reducing shareholder value.

My discomfort with the form of social responsibility created by the concern for shareholder value extended beyond community based projects; it included the manner in which the business was conducted generally. For example, marketing directed at customers who were nearing the point of being “paid up” was not necessarily in their best interest. However, as retaining “good customers” was important to the business in terms of its chances of achieving targeted profits, it was thought to be necessary.

In 2000 I undertook an MA involving research into the validity of the apparent imperative to maximise shareholder value. Although I was able to refute the claim that it was the sole responsibility of business to maximise owner value, this was insufficient. Even if it was clear

that shareholder value was not the sole concern of business and that it had some degree of responsibility towards society, it was not apparent where the balance lay.

The tensions referred to above are replicated in the academic literature.

Firstly, a tension exists between those who argue that business has a responsibility to society and those who argue that its sole responsibility is to its owners. Richard Kraut (2009:187) makes the point that if we are to flourish as human beings we need a strong economy in order to provide the goods that flourishing demands. However, he is clear that the pursuit of unlimited wealth is not good for us. Martha Nussbaum (2011:122) claims that multinational corporations have a role to play in achieving the goals of international development but that more work is required to fully understand what that role might be. Will Hutton (2012) claims that businesses no longer have a defined purpose which at one time was an obligatory requirement for incorporation and which described the nature of the contribution they were to make to society. By contrast, in a seminal work, Milton Friedman (1970) claims that “the social responsibility of business is to increase its profits”. Elaine Sternberg (2000) offers an “Ethical Decision Model” based on the premise that the defining purpose of business is to “maximise long term owner value “.

Secondly, executives responsible for the strategic direction of business, currently caught between what might be termed stakeholder and shareholder demands, lack clear guidance on how to balance those competing demands. Hillman and Keim (2001) argue that engaging with direct stakeholders can enhance shareholder value but involvement in wider social issues (e.g., not trading in countries with poor human rights records or not trading in alcohol or tobacco) tends to reduce shareholder value. Sternberg's Ethical Decision Model, referred to above, provides guidance that requires executives to engage with stakeholders only to the extent that serves to maximise shareholder value.

Thus, wider social issues are deemed to be illegitimate concerns for business. However, in apparent conflict with this, in the UK, the Companies Act 2006 contains a section (172) intended to establish the legal responsibility of business directors to take into account the interests of stakeholders, and the principles of social responsibility, in addition to the interests of shareholders. However, Ajibo (2014) argues that, in the absence of an objective means of linking those interests, directors will not have any clear idea of how to proceed other than by putting the interests of shareholders first.

Thirdly, over recent years, particularly in the aftermath of the 2008 banking crisis, there has been concern over the level of executive remuneration. Acharya and Richardson (2009) argue that the crisis was brought about by excessive financial incentives causing executives to take risks in pursuit of increased profit. Many shareholders have objected to such practices leading to shareholder activism that has become known in the UK as the “Shareholder Spring”. However, such activism has been largely unsuccessful due to the inability of individual shareholders to exert sufficient influence (Ficenec, 2014, Fairfax, 2013, Bhagat and Romano, 2009).

Fourthly, there is continuing concern regarding the relationship between business and society. Hutton (2012) argues that, in the past, when a business was incorporated it entered into a form of contract between itself and society. That contract embodied the principle that, although the purpose of the business was to generate a profit for its owners, businesses would be conducted in a manner which was valuable to society as a whole. However, this principle has been abandoned as a result of the pursuit of maximum shareholder value.

In conducting the research into the balance between stakeholder and shareholder demands, then, there are four principal objectives which are related to the above concerns. Firstly, my approach is not to attempt to strengthen one set of arguments at the expense of the other. The goal is to establish a conception of how business should best be conducted that might accommodate both. Secondly, the aim is to establish a link between the interests of stakeholders and shareholders, such that effective guidance for directors can be provided in respect of discharging their legal responsibilities. The third objective is to identify the means by which shareholders can make clear to their directors how they wish their businesses to be conducted and exert sufficient influence to improve the prospect of their wishes being met. Finally, the aim is to determine a mechanism by which businesses can pursue maximum shareholder value yet still make a valuable contribution to society. That is, a means by which businesses might form a part of society rather than simply being an external supplier of goods and services.

In achieving the objectives outlined above, the thesis contributes a new understanding of how businesses might be conducted so as to avoid the problems generated by the existing conflict between stakeholder and shareholder interests. It demonstrates that the pursuit of social goals by business can be consistent with the demand for maximum shareholder value.

In doing this, two new concepts are described and defended. Firstly, a model of shareholding that provides shareholders with both the opportunity to make clear what value they expect their directors to maximise and the ability to hold them accountable for doing so. Secondly, a form of business accreditation that: involves a contract with local communities enabling the pursuit of social goals; maintains the opportunity for businesses to generate sufficient financial value for sustainability; and provides directors with an unambiguous understanding of their fiduciary responsibility. In addition, the potential of these two concepts to address the perceived failings of the political initiative known in the UK as the “Big Society” is demonstrated.

The approach that I have chosen to take in conducting this research can be described as Neo-Aristotelian. It draws on Aristotle's thinking as expressed in the *Nicomachean Ethics* and the *Politics* but departs from a strict interpretation of Aristotle by rejecting the normativity of that approach. That is, it is concerned with creating the conditions within which a particular manner of business conduct is possible but does not stipulate that such conduct should be adopted by businesses generally. Such an approach leaves open the possibility of choice in relation to the conduct of business that modern societies demand. However, the choices that are to be made are informed by Aristotelian principles for a number of reasons.

Firstly, Aristotle provides the basic premise that all people share the common goal of wishing to be happy. Although this has problems in terms of the subjective nature of happiness, it offers the possibility of providing a foundation on which to build a model of business conduct which is, potentially, acceptable to stakeholder and shareholder theorists alike. Consequently, the universal desire for happiness is taken as a starting point.

Secondly, the Aristotelian approach accommodates the need for freedom of choice referred to above. Unlike other perspectives, such as Deontology or Consequentialism, Aristotle's conception of ethics does not involve rules that must be followed. Aristotelian ethics are concerned with the exercise of virtue which involves choice in terms of the different actions to be taken in different circumstances. However, whereas Aristotle stipulates that such choices are to be those that would be made by a person of practical wisdom, the approach pursued here permits complete freedom of choice. It does so by providing the opportunity for the acquisition of such wisdom which, if taken, would naturally lead to choices being made as advocated by Aristotle. However, it does not demand that this opportunity is taken.

Thirdly, Aristotle locates the achievement of the happiness that we all desire in the context of society. For him, what is good for the individual citizen is good for the State. As described above, one of my objectives is to re-establish the relationship between business and society, such that what is good for the former also benefits the latter. Consequently, taking an Aristotelian perspective, freed from its normative demands, provides the basis of a mechanism through which the bonds between business and society can be strengthened.

Fourthly, the Aristotelian approach incorporates the practice of dialectic. Dialectic involves establishing what might be considered to be a true position from the basis of conflicting arguments. It does not progress by favouring a particular argument and seeking evidence to strengthen it but rather by attempting to establish a hybrid of the two (or more) positions. Dialectic achieves this by resolving the particular areas of conflict that arise between the opposing arguments whilst retaining as many as possible of their premises. Consequently, the use of dialectic is of advantage in identifying a model of business conduct that has the potential to be acceptable to both stakeholder and shareholder theorists.

A teleological methodology is adopted for the research, incorporating the technique of dialectic. It begins with the basic premise that all people wish to be happy and ends with a particular model of business conduct. Because of their scope, certain ideas that are encountered cannot be fully evaluated. Consequently, such ideas are evaluated only to the extent demanded by the requirements of dialectic. In all other respects these ideas are taken for granted.

One such idea is that of the free market. The term “free market” is taken to describe the dominant form of the global market for goods and services, as it currently exists. Other issues concerning the concept of a free market are not considered.

The thesis is divided into three sections. The first section, consisting of chapters one to three, lays the foundation of the argument that follows. It establishes a conception of happiness and outlines the sort of State capable of supporting such a conception, which will subsequently provide the context in which business is to be conducted.

Chapter 1 begins with the Aristotelian premise that all rational people have a common goal of being happy or *eudaimon*. The Aristotelian conception of *eudaimonia* is evaluated from two perspectives suggested by its usual translations of “happiness” or “flourishing”. This leads to a description of happiness that has two components: a state of being in which there is a feeling of being whole and undivided and free of tension; and feelings of pleasure associated with the

satisfaction of our desires. The means by which a condition of happiness might be achieved is considered and it is established that the only rational manner of pursuing happiness is by creating a “eudaimonic field”. The eudaimonic field, which is created by the possession of virtue and populated with the goods that we desire, is examined. This examination shows that virtue is the dominant component of happiness and has the effect of “amplifying” pleasure. The chapter concludes by arguing that it is a categorical imperative for all rational people that they acquire and exercise virtue in order to create a eudaimonic field which they can populate with goods sufficient to achieve happiness. However, it is acknowledged that not all people are capable of creating such a eudaimonic field and this leads to Chapter 2.

Chapter 2 considers the responsibilities the State might have in terms of providing its citizens with the ability to achieve true happiness. These responsibilities are viewed from the traditional Aristotelian perspective of the naturalness of the State, and the modern perspective of providing citizens with certain Capabilities as advocated by some researchers in the field of International Development. The similarities between the Aristotelian conception of the State, as providing the conditions required for the rational pursuit of happiness, and a particular form of the Capabilities approach, which involves the just State providing a threshold level of ten Central Capabilities, are examined. It is argued that, whereas the Aristotelian approach is concerned with acquiring virtue in order to create a eudaimonic field, the Capabilities approach is concerned with providing the opportunity to populate such a field with sufficient goods to enable the achievement of happiness. It is noted that the former is explicitly concerned with the exercise of virtue and is essentially normative, whereas the latter can be considered to be metanormative as it accommodates a plurality of ways of functioning. It is argued that virtue can be considered both normatively and metanormatively such that a just State can provide its citizens with the opportunity to achieve true happiness by enabling them to acquire a eudaimonic field, created by virtue and sufficiently populated by a threshold level of the ten Central Capabilities. Finally, the functioning of Aristotle's ideal *polis* is considered in detail in order to identify the essential requirements for creating a sufficiently populated eudaimonic field.

In Chapter 3 the question of whether or not the modern State is capable of satisfying the requirements for enabling all its citizens to possess a sufficiently populated eudaimonic field is addressed. It is first established that the modern State is capable of providing the material requirements for sufficiently populating a eudaimonic field. The chapter goes on to consider the possibility of a modern State being a suitable environment for the acquisition and exercise

of virtue necessary for the creation of a eudaimonic field. In doing so the rival claims of communitarians and liberals are examined. The concept of citizenship is investigated from these two political perspectives and a form of citizenship that embodies, as far as possible, the demands of both is defended. A eudaimonic State, that is, the type of State that would be required in order to accommodate the possession of a eudaimonic field and be acceptable to communitarians and liberals alike, is described in outline. It is suggested that it would consist of semi-autonomous local communities, supported by the State but empowered to satisfy the specific needs of its members in terms of possessing a sufficiently populated eudaimonic field. The chapter concludes by considering the problems associated with establishing such communities and suggests that business has an important role in overcoming these problems.

The second section, consisting of two chapters, is concerned with the manner in which business might contribute to the eudaimonic State's goal of creating, for each of its citizens, the capability of possessing a sufficiently populated eudaimonic field, which is described as the "capability of happiness". The contribution that a business might legitimately make to such a goal is considered from two perspectives; that of the State and that of the owners of businesses. The section thus concerns the tension that exists between stakeholder and shareholder theories.

Chapter 4 deals with the role that the eudaimonic State needs businesses to fulfil. The chapter begins by evaluating the legitimacy of business's pursuit of wealth in the context of Aristotle's condemnation of retail trade in the *Politics*. It is concluded that the pursuit of unlimited wealth by businesses can be legitimate if, and only if, those engaged with it are given the opportunity to acquire and exercise virtue as a consequence of their engagement. Those engaged with business are presumed to have a stake in it and, consequently, the origins and nature of stakeholder theory are examined. Two forms of stakeholder theory are identified: "normative", which treats the stakeholder as an end in himself and "instrumental", which treats the stakeholder as being a means to the end of creating wealth. It is argued that the eudaimonic State needs business to adopt the normative form of stakeholder theory. Each of the main classes of stakeholder is examined in order to establish what treating stakeholders in a normative manner would entail in terms of both protecting their right to, and contributing to, their capability of happiness. The chapter concludes by demonstrating that an effective means by which business could contribute to creating the capability of happiness of its stakeholders is by forming partnerships with the type of local communities advocated in Chapter 3.

Chapter 5 considers the potential purposes that owners may have in respect of the businesses that they own. The chapter recognises that the purposes an owner has for her business may be in conflict with the needs of the State, as discussed in Chapter 4, and aims to identify a means by which such a conflict might be mitigated. The chapter begins by examining the claims of three important contributions to shareholder theory. Each has a particular set of arguments supporting what is essentially the same claim; that the only legitimate purpose of a business is to maximise the financial value which it generates for its owner. Each set of claims is examined in detail and it is demonstrated that it is possible for each claim to be met within the context of a eudaimonic State, which embodies the normative conception of stakeholding. The chapter concludes by offering a conception of “Corporate Citizenship”, involving the idea of virtuous citizenship defended in Chapter 3, which has the potential to satisfy the supporters of both normative stakeholder theory and shareholder theory alike.

The third and final section contains three chapters and addresses the issues that the thesis sets out to resolve, doing so in the context of a “eudaimonic business”. That is, business conceived of as a corporate citizen of a eudaimonic State, as defended in the previous two sections. Firstly, the important issues for the director of a business are identified in terms of the conduct necessary to create and maintain a “good” business. Secondly, a means is proposed by which shareholders can exercise a greater degree of control over the conduct of the businesses of which they are, collectively, the owners. Finally, a means of satisfying the perceived need for strengthening links between business and society is defended, in a manner that is consistent with the prevailing conception of a free market.

Chapter 6 addresses the essential requirements of a well managed business by considering business to be a living thing and applying the principles of Ethical Naturalism as first discussed in Chapter 1. The chapter begins by examining some arguments for and against the idea of business being considered analogously with living things and finds that such an analogy is valid. The chapter proceeds by taking the definition of business that was adopted in Chapter 5 to be a description of the essential characteristics of business. That is, a list of characteristics, or “Aristotelian categoricals”, that a business must possess if it is to be considered a “good” business. Each Aristotelian categorical is considered in detail and the conditions required for ensuring that businesses possess such categoricals are identified. In order to ensure that a business possesses all its Aristotelian categoricals its conduct must include a number of critical actions, or “Aristotelian necessities”, and these are established for each categorical. It is suggested that failure by those responsible for the conduct of business could be ascribed to

uncertainty regarding the wishes of an owner, whether or not those wishes are being met, the demands of society, and uncertainty about the requirements of their customers. The chapter concludes by defending the formation of partnerships between businesses and local communities, as described in Chapter 4, as a means of avoiding this uncertainty.

Chapter 7 deals with the difficulty experienced by shareholders in making their wishes known and influencing the conduct of their business should their wishes not be met. The chapter begins by examining an argument that shareholders are not entitled to possess the status of being owners of a business. This examination concludes that shareholders can be legitimately considered as owners if, and only if, certain requirements are met. Consideration of these requirements leads to the identification of a number of problems that must be resolved if shareholders are to be entitled to the status of owner. Resolution of these problems leads to a model of shareholding being defended that involves a system of proxy voting on behalf of shareholders by representative organisations. The legitimacy of adopting the principle of representation in an essentially Aristotelian framework is considered and it is shown to be compatible with the method of government commonly employed within the *Polei* of Ancient Greece. The chapter concludes by demonstrating how the requirements of a “good” business, identified in Chapter 6, can be combined with the type of business needed by a eudaimonic State, described in Chapter 4, to produce a form of business accreditation that will assist shareholders achieve the degree of influence they require.

Chapter 8 considers the practicalities of establishing the practice of accrediting businesses as being “eudaimonic” in the context of the free market as it currently exists. The overall aim of the chapter is to demonstrate how business can contribute to the goal of the eudaimonic State without the requirement for direct government intervention. The chapter begins by considering the basic principles of a minimally regulated market of the type that currently exercises global economic hegemony. The problems such a market can be considered to represent for a eudaimonic State, in terms of the contribution it needs from business, are identified. In particular, the lack of success achieved by attempts to form partnerships of various types between business and enterprises concerned with issues of human development is investigated. The chapter proceeds to demonstrate how “eudaimonic partnerships”, the type of partnerships formed between businesses and local communities with the purpose of contributing to the creation of the capability of happiness, can avoid the difficulties experienced by other forms of partnership. The conclusion of the chapter is that eudaimonic accreditation can address the perceived failings of a minimally regulated market, provide

directors with an unambiguous understanding of what their fiduciary responsibilities entail, provide shareholders with the degree of influence believed to be lacking, and strengthen the bonds between business and society that the influence of a global economy appears to have weakened.

The thesis as a whole concludes with an identification of structural changes that adopting a goal of creating the capability of happiness would entail at the level of the State and globally. The principal requirements would be integrating local communities with local and national government, establishing some form of global governance, introducing a system of eudaimonic accreditation, creating the necessary fiscal arrangements, and restructuring the Stock Market. It is acknowledged that these changes are extremely complex and demanding to implement. However, it is noted that, in the UK and elsewhere, there are large scale initiatives in many of these areas but what appears to be lacking is a framework capable of providing a coordinated approach to a common goal. It is claimed that the concepts of the eudaimonic State and eudaimonic business could provide such a framework with a goal of creating the capability of happiness for all.

Section I

Happiness and the Eudaimonic State

Chapter 1

The Capability of Happiness

At the beginning of the *Nicomachean Ethics* Aristotle speculates about there being a single overarching goal which all men share and which all other goals are for the sake of (1094a1-1094b10). He goes on to suggest that there is such a goal and that, uncontroversially, it is *eudaimonia*, which is usually translated as happiness or flourishing. He observes that, although there is general agreement that all men desire to be *eudaimon*, there is little consensus about what this entails. Different people often identify it with different things at different times (1095a17-26). A little later Aristotle offers his own definition of *eudaimonia* as being a life lived in accordance with virtue (1098a16-21).

In this chapter, taking the above to be my starting point, I will address three questions which seem to arise. What is it to live a life in accordance with virtue? Why should we believe that such a life constitutes happiness? What, if anything, follows from possessing answers to the two previous questions? In doing so I will adopt the perspective of Ethical Naturalism as formulated by, amongst others, Foot and Hursthouse or the particular version of it which Kraut calls Developmentalism. The conjunction of happiness and flourishing appears to be a somewhat paradoxical combination of the subjective with the objective. Consequently, I will examine these two concepts and attempt to offer a description of happiness that embodies them both yet is itself substantially objective. I will go on to consider human rationality and the implications it holds for our desire to be happy. I will suggest that virtue emerges as a necessary consequence of our aversion to pain and is fully developed in us as a result of the rational pursuit of happiness. I will also claim that virtue plays a necessary and dominant role in achieving true happiness. I will conclude by suggesting that happiness is a capability which must be acquired.¹

¹ It may be said at the outset that because I appear to give primacy to the self-interested pursuit of happiness I am actually in conflict with Foot. It could be pointed out that in her *Natural Goodness* she explicitly states that “I now believe that both the self-interest theory of rationality and the theory of rationality as desire fulfilment are mistaken” (p10). However, as I hope will become clear, giving primacy to happiness, as it will be described, just is to give primacy to virtue. The rational pursuit of happiness does not involve subordinating rationality to what happiness requires rather it concerns pursuing happiness in the manner that reason demands. Although Foot may not have approved of the approach I

I begin by considering happiness and flourishing as completely separate concepts, leaving until later an examination of how they are related and can be unified in a broader, objective concept of happiness. Beginning with the narrow subjective conception of happiness: It might be taken to be the case that the claim “everyone wants to be happy” is a truism. That is, we would be inclined to question the sanity of anyone who claimed that unhappiness was his preferred state.² For example, if during a conversation I learned that today was my interlocutor’s birthday I may wish him a “happy birthday”. I would not feel that in doing so I was acting presumptuously or feel the need to confirm that a happy birthday was the kind of birthday he wanted. However, should I wish to contribute to the happiness of his birthday I might choose to give him a birthday present. In such a circumstance I would have to know something about the recipient in order to resolve the question of whether, say, hang-gliding lessons or tickets for Swan Lake would be the more appropriate gift. From these considerations we might begin to form the impression that there is more than one aspect to happiness. There is something about it that is common to us all, that each of us wants, yet there is something else that is specific to each individual. The implications of this idea will be investigated.

Foot makes the point that not all actions are aimed at happiness. “Brave people choose great and immediate evils, such as certain death, in order to rescue or defend others. And even in their choice of lives some reject happiness for the sake of some other goal” (Foot, 2001,82). She illustrates this second point by reference to Madame Nijinska the wife of the famous dancer. Prior to her marriage she was apparently warned that marrying Nijinski would ruin her life. However, she chose to proceed with the marriage, claiming that she would “...rather be unhappy serving Nijinski’s genius than be happy without him” (2001,82 footnote). How might Madame Nijinska’s attitude be explained? It might simply be suggested that she was insane and the matter dismissed as being of no relevance. After all we could well imagine her friends saying something like “she must be mad choosing to marry him, he will bring her nothing but pain”. However, I will assume that Nijinska was rational and had good reasons for acting as she did. This thereby presents an apparent contradiction; it is rational, *ex hypothesi*, to choose to

have chosen to take I do not believe that the arguments I will deploy are in conflict with ethical naturalism as she understood it.

² It might be claimed that the acts of grieving and suicide are examples of a person choosing to be unhappy. However, these acts may be better understood as a consequence of being unhappy rather than being involved in the pursuit of unhappiness. Grieving can be interpreted as a form of catharsis enabling the resumed pursuit of happiness following a traumatic loss. Whereas suicide might be understood as the consequence of a belief that even a minimal level of happiness is unachievable.

be happy and it was also rational for Nijinska, in the circumstances in which she found herself, to choose to be unhappy. One way of resolving this apparent contradiction would be to suggest that we are dealing with two aspects of happiness such that it is possible to be simultaneously happy in respect of one and unhappy in respect of the other. It seems plausible to suggest that in such circumstances, by the application of reason, we would evaluate the two aspects and make a choice between them that would, in the prevailing circumstances, represent our assessment of the optimum overall level of happiness available to us.³

As regards Nijinska's plight: we can probably all imagine a marriage in which both partners love each other and their life together involves nothing but pleasure, but it is likely that this rarely, if ever, occurs. Usually there is a compromise to be made between the feelings we have for our partners and the pleasure or pain that our life together creates. When this compromise is acceptable we describe it as a happy marriage and the sort of person we are, defined by the particular set of values we possess, determines its acceptability.⁴ A loveless marriage which provides both partners with material benefits, such as wealth, security or status, might be described as happy by some. However, it is likely that for the majority of us, for a marriage to be described as happy it must involve a certain depth of feeling. It seems that in Nijinska's case that feeling ran deep indeed.

The idea that happiness involves a deep feeling is given support by another example that Foot offers. She describes the circumstances of a number of Germans who were put on trial and ultimately condemned to death for defying Hitler. As Foot points out, there was presumably a point prior to them being sentenced at which they could have renounced their anti-Nazi positions. In doing so they may well have saved their lives and may have become free to return to their families and the happiness they experienced there. In the event this was not the choice they made. They chose to maintain their principled anti-Nazi stance despite believing that it would cost them their lives and deny them the happiness they might otherwise have enjoyed. Furthermore, Foot comments that the letters that they wrote to their families and loved ones, whilst they were awaiting execution, were remarkable for the sense of happiness that they conveyed. It seems that, once again, we can imagine an apparently simultaneous choice of unhappiness and happiness. As Foot observes, "One may think that there was a

³ This statement is based on the Aristotelian interpretation of happiness which I have adopted for the purposes of this thesis and which involves the principle that happiness is the ultimate goal of all our actions.

⁴Based on the Aristotelian conception of happiness a happy marriage is one which results in an overall contribution to the happiness of the two partners.

sense in which the Letter-Writers did, *but a sense in which they did not*, sacrifice their happiness in refusing to go along with the Nazis” (2001,95 original emphasis).

In the above example it can be seen that the aspect of happiness that was chosen involved possessing strong principles and the aspect of happiness that was sacrificed involved the prospect of a pleasant life. That this choice resulted in a degree of happiness despite it entailing the Letter-Writer’s deaths is confirmed by the tenor of the letters they wrote. This suggests that happiness is in some sense a combination of strong principles and pleasure. The possibility that an important component of happiness is concerned with possessing strong principles is supported by Hursthouse’s reference to Hume’s criteria for happiness which she cites as involving “inward peace of mind, consciousness of integrity, [and] a satisfactory review of [her] own conduct” (Hursthouse, 1999,47). Of these I will particularly consider the concepts of peace of mind and integrity. It might be said that peace of mind is an emotional state, a positive one, the negative correlate of which Kraut describes as “...a kind of tension or turbulence...”(Kraut, 2009,153). As regards integrity, the Oxford Dictionary of English defines it as “the quality of being honest and having strong moral principles”. However it offers an alternative definition which is “the state of being whole and undivided”. If the second definition of integrity is combined with the emotional state of peace of mind it produces an idea of happiness that involves something like “a state of being in which there is a feeling of being whole and undivided associated with the absence of tension.”⁵

In addition to the above however, there is the aspect of happiness that concerns pleasure. Foot makes the point that pleasure as part of a happy life can be understood as the enjoyment of achieving something that we perceive as good⁶ (Foot, 2001,83). Consequently, if we believe that learning to hang-glide would be a good thing to do, being given hang-gliding lessons would contribute to our happiness. However, if we enjoy a ballet, tickets for a performance of Swan Lake would be a better bet. Consequently, if an overall view of happiness is obtained by combining the two aspects under consideration it might be said that it is “a state of being in which there is a feeling of being whole and undivided and free of tension together with feelings of pleasure associated with the satisfaction of our desire to achieve those things we perceive as good.” Furthermore, it might be added that when we evaluate the two aspects in terms of the contribution they make to our overall happiness the weighting we give to each

⁵ By “state of being” I am referring to something in the context of an active life in which choices are made, thus denying the possibility of happiness being possible for someone in a coma.

⁶ What we take as being “good” or “a good” is discussed later in the context of Developmentalism.

depends on the type of character that we have. Keeping this in mind, the issue of flourishing will now be examined.

The first thing that should be noted is that the concept of flourishing only applies to living things. We might, for example, refer to a tomato plant as flourishing in the greenhouse or our friend as flourishing in her new job. However, we would not normally say of chairs or paintings or rivers or mountains that they are in any sense flourishing. If someone were to describe, say, a river as flourishing we would tend to assume that they were employing poetic licence and treating it as if it were alive or perhaps commenting on its teeming with fish.⁷ What is it then about life that makes it a necessary condition for flourishing? Thompson (1995) addresses the question of what it is for something to be alive by reference to what he calls a “Q-document”, an, as yet undiscovered, original list of the requirements for differentiating living and non-living things. The Q-list is the basis for all the lists that might be found by a “...random survey of college bookstores...”. Thompson gives an example of such a list, compiled by Helena Curtis, which contains seven criteria that living things must satisfy in order to be considered as such. That is:

[They] *‘are highly organised.’* They are *‘homeostatic*, which means simply “staying the same”’. They *‘grow and develop’*, and are *‘adapted’*. They *‘take energy from the environment and change it from one form to another’* and they *‘respond to stimuli’*. Finally, of course, *‘Living things reproduce themselves’* (Thompson, 1995,253 original emphasis).

Thompson goes on to demonstrate that if we subject such lists to close scrutiny we can see that what they actually describe is a sort of process taking place in a particular context. He makes the point that:

If a thing is alive, if it is an *organism*, then some particular vital operations and processes must go on in it from time to time – eating, budding out, breathing, walking, growing, thinking, reproducing, photosynthesizing; and it must have certain particular organs or ‘parts’ – leaves, legs, cells, kidneys, a heart, a root, a spine (Thompson, 1995,274-5 original emphasis).

Thompson argues that the processes and parts described cannot be understood fully by themselves; they have to be considered in a wider context which he claims is the life form or

⁷ Businesses are frequently referred to as flourishing inferring that they are considered to be living things. The justification for considering business as a living thing and the implications of doing so is the subject of chapter 6.

species. So for a rabbit, say, obtaining nourishment involves biting, chewing and digesting foodstuff such as grass, whereas a particular species of whale does so by filtering plankton out of the water in which it swims. It is the species that gives meaning to the process. Thompson goes on to say of species that they can be described by what he calls “natural-historical judgements”, these are sentences of the form “The S is (or has, or does) F.” Examples being, “‘The domestic cat has four legs, two eyes, two ears and guts in its belly’, ‘the Texas blue-bonnet harbours nitrogen-fixing microbes in certain nodes of its roots....” Thompson calls such sentences “Aristotelian categoricals” (1995,281).

Thompson points out that when we refer to, say, “the domestic cat” in the context of an Aristotelian categorical we are not referring to an individual cat but in some sense to domestic cats in general. However, we are not saying that Aristotelian categoricals are necessarily possessed by all members of the species to which they refer. In describing a species according to its Aristotelian categoricals we are not saying that all or most of its members possess all the Aristotelian categoricals involved in that description. As Thompson observes “...although ‘the mayfly’ breeds before dying, *most* mayflies die long before breeding” (1995,284 original emphasis). Foot makes the point that Aristotelian categoricals are teleological in nature, not statistical. An Aristotelian categorical “...speaks, directly or indirectly, about the way life functions such as eating and growing and defending itself come about in a species of a certain conformation, belonging in a certain kind of habitat” (Foot, 2001,33). Living things have life cycles that are characteristic of their species, from an origin such as the fertilisation of an egg or the germination of a seed, through a period of growth, ultimately ending in death at some point before which the organism normally reproduces. Aristotelian categoricals can be considered as the powers or attributes that a living thing possesses and which are important to its chances of completing a full life cycle in the environment in which it is normally found. For example, as Foot explains, “It *matters* in the productive life of the peacock that the tail should be brightly coloured...”(2001,33 original emphasis).

Flourishing, it seems, relates to the individual’s possession of the Aristotelian categoricals associated with its species, that is, its apparent prospects of successfully completing a full life cycle. We might say of an oak tree that it is flourishing despite its growing in poor soil but not that it is flourishing despite its having shallow roots. If it does not exhibit the Aristotelian categorical “has deep roots” we are not inclined to say of it that it is flourishing; it is, to some degree, a defective oak tree. Similarly, we would not describe a peacock without a brightly coloured tail as flourishing despite it otherwise appearing to be healthy. However we might

question the claim that, in this respect, humans are no different to oak trees, peacocks, domestic cats or Texas blue-bonnets. Can we say that if humans do not exhibit the Aristotelian categoricals associated with their species they cannot be considered to be flourishing; they are in some manner defective? That animals including humans are different from living things such as plants is uncontroversial, yet we feel able to assess the flourishing of non-human animals in a similar manner to that of plants, so why not humans? Foot suggests that “...human good must indeed be recognised as different from good in the world of plants or animals, where good consisted in success in the cycle of development, self-maintenance and reproduction. Human good is *sui generis*. Nevertheless, I maintain that a common conceptual structure remains”⁸ (Foot, 2001,51). However, it is necessary to consider if there may be anything in the unique nature of human good that renders the concept of flourishing inappropriate. That is, is there a differentia that, with respect to humans, invalidates the principle of relating flourishing to the possession of Aristotelian categoricals? One important sense in which humans can be considered different from the other animals is in respect of our rationality. An important question therefore is “does the possession of rationality invalidate the criteria used for establishing whether or not a living thing is flourishing?”

MacIntyre (1999,12) suggests that the difference that rationality makes to the comparison between humans and other animals is one of degree and not kind. The apparent discontinuity between humans and other animals concerns the possession by humans of a particular form of language. MacIntyre points out that some philosophers have argued that man’s ability to think conceptually and have reasons to act is critically dependant on the possession of language. Non-human animals, because they do not possess language, are thus considered not to have such powers. However, MacIntyre claims that detailed studies of dolphins have shown that this assumption is clearly false. These studies suggest that dolphins have a wide range of powers that seem to involve having reasons and therefore thoughts and beliefs. Furthermore, “[Researchers] have invented a simple, artificial, acoustical language and have taught dolphins to understand and to respond to sentences spoken to them...” (MacIntyre, 1999,27).

MacIntyre considers in considerable depth the degree to which dolphins and some other animals such as chimpanzees and gorillas possess powers that have traditionally been thought of as uniquely human. This leads to the conclusion that there are a number of species that

⁸ In essence, Foot appears to be suggesting that humans, as a species, possess Aristotelian categoricals that are not possessed by any other species of living things. However, she does not believe that this fact alone invalidates the principle of evaluating the “goodness” of an individual by reference to the presence or absence of Aristotelian categoricals when applied specifically to humans.

possess the sort of rationality that involves the use of language. Consequently, if humans are not unique in terms of possessing rationality, and rationality is supposed to exempt human beings from the account of flourishing as tied to categoricals, then perhaps all those species who share this Aristotelian categorical should be so excluded. However, if this step was taken, it would make the criterion for exclusion the possession of rationality itself and not the uniqueness taken to be associated with it. Therefore, the principle that for a human to flourish is for it to exhibit the Aristotelian categoricals associated with our species, can, with some caution, be accepted. However, consideration will be given to the question of, if and to what extent the Aristotelian categorical “is rational” might invalidate this principle. However, before doing so, consideration of the conception of happiness and its relationship with flourishing will be resumed.

As I observed at the beginning of this enquiry we need to combine the subjective idea of happiness with the objective idea of flourishing to produce a complete account of happiness. I am now in a position to do that and might say that happiness in the broader more objective sense is “a state of being in which there is a feeling of being whole and undivided and free of tension, for which possession of the Aristotelian categoricals of the human species is a precondition (the objective component), together with feelings of pleasure associated with the satisfaction of our desires (the subjective component)”.⁹ With this conception of happiness in mind an investigation into the role played by rationality in achieving man’s ultimate goal can be commenced. From this point references to happiness will be in this broad sense.

The rationality under consideration is that which requires possession of language. The sort of rationality that MacIntyre suggested is widely thought to be possessed only by humans and which McDowell claims is captured by the Greek word *logos*. He describes that as being “...the power of giving expression to conceptual capacities that are rationally interlinked in ways reflected by what it makes sense to give as a reason for what” (McDowell, 1995,151). In simple

⁹ I am aware that different political philosophies have different conceptions of the good and that there is a large body of literature dealing with these. Furthermore, I am aware that, within this literature, it is clear that for different philosophies there are different conceptions of what is objectively true about the good. For example, civic republicans consider participation in the political process to be an objective component of the good. Whereas, liberals, such as John Rawls, claim that there are only a relatively narrow range of goods which he suggests are common to us all in terms of achieving the good life and which he calls “primary goods”. For a comprehensive survey of conceptions of the good in respect of the principal political philosophies see Kymlicka (2002). My purpose in this chapter, however, is not to argue for or against a particular conception of the good but to attempt to establish, from first principles, a conception of happiness that is sufficiently objective to be capable of forming the basis of a political system. In chapter 3 I will attempt to demonstrate how my conception of happiness might be acceptable to both communitarians and liberals.

terms possession of *logos* provides the ability to think conceptually and to ask questions of oneself such as “what, in these circumstances, would be in my best interest?” and to provide answers to such questions. Furthermore, it is *practical* rationality involving choices; it is assumed that answering the questions give reasons for acting. As McDowell points out “A possessor of *logos* cannot be just a knower, but must be an agent too; and we cannot make sense of *logos* as manifesting itself in agency without seeing it as selecting between options, rather than simply going along with what is going to happen anyway” (1995,152).

It is clear that the possession of *logos* has a significant impact on the conception of flourishing defended above. In order to understand the nature of that impact McDowell (1995,151-155) invites us to imagine a number of wolves who have acquired *logos*. He makes the point that one of the Aristotelian categoricals relating to wolves is “hunts in packs”. However, a rational wolf can challenge this. He can ask “why should I do this, why not let the others do all the work and just join in for the meal?” Furthermore, he can act on the answer. He may conclude that this would be a good thing to do and, having tried it successfully on a number of occasions, adopt it as his normal way of behaving. Standard wolves cannot do this; their behaviour is determined by biological necessity as described by their Aristotelian categoricals. From this it can be seen that the possession of *logos* seems to have the power of freeing its possessor from the Aristotelian categoricals of the species. In addition, it might be noticed that the rational wolf is doing rather well on his new strategy. He seems well fed with a glossy coat and bright eyes and appears relaxed and content with his lot, in fact we might be inclined to describe him as flourishing.¹⁰ This presents a problem: this is a defective wolf by our standards yet it appears to be flourishing. It seems that either the suggestion that possession of Aristotelian categoricals is required for flourishing is wrong or flourishing cannot after all be attributed to animals that possess *logos*, at least in the way that it is to other living things.

McDowell offers an escape from this problem by claiming that animals that possess *logos* thereby possess the potential to have two different kinds of nature. McDowell invokes the Neurathian principle in making this claim. That is, the idea that based on the possession of a particular set of values it is possible, by the exercise of *logos*, to create a completely different

¹⁰ This freedom from the Aristotelian categoricals must, however, be in a manner that is amenable to reason. Theoretically, reason can allow us to be free from all Aristotelian categoricals but to be employed rationally such freedom should not obstruct our ability to flourish. We can be free of the Aristotelian categorical “obtains nourishment by chewing, swallowing and digesting food” by refusing to eat. However, as this would normally result in death, unless there was a compelling reason for doing so it would be irrational. Conversely, feeding a person who suffers with Multiple Sclerosis by tube directly into their stomach is a freedom from the Aristotelian categorical which is in accordance with reason.

set of values.¹¹ The Neurathian principle suggests that the possession of *logos* endows us with a power that makes it necessary for us to critically review our values. As McDowell puts it, "...we cannot escape the burden of reflective thought – the obligation to weigh, by the best lights we have, the credentials of considerations purporting to appeal to reason..."(McDowell, 1995,171). This leads us to abandon those values that no longer serve our self-interest in favour of those that do, or that do so more effectively. According to this principle, from the standpoint of self-interest and its self-regarding values, we can create a completely new set of values. In such a circumstance our self-regarding values constitute what McDowell refers to as our "disenchanted nature" or "first nature", the sort of nature that is revealed by scientific enquiry.¹² Whereas our new set of values form a "second nature". The example of the rational wolves can be revisited in order to understand the implications of this in terms of resolving the apparent problem.

Suppose that these rational wolves have come to the attention of a zoologist conducting research into wolf behaviour. He might come to an initial conclusion that because they do not hunt with the pack they are defective wolves. However, on further consideration he may begin to recognise something that suggests a degree of rationality greater than he would normally expect of a wolf. Finally, he may come to believe that he has discovered a new sub-species of wolf which he might describe as, other than possessing human levels of rationality, in all respects identical to a standard wolf but having an Aristotelian categorical "is parasitic on standard wolves" instead of "hunts in packs". Consequently, by critically reflecting, in the Neurathian manner, on the values of his first nature that result from asking the question "what is in my best interests?" the rational wolf has created a second nature that involves, *inter alia*, practices relating to living off the efforts of other wolves. These practices serve to bind the rational wolf's practical rationality to his second nature Aristotelian categoricals such that in order to flourish he must be parasitic on standard wolves. That is, when *logos* is applied to his second nature principles concerning the acquisition of nourishment, the actions that follow will entail being parasitic on standard wolves. The sort of behaviours that bind reason to Aristotelian categoricals in this way are what, after Anscombe, Foot calls "Aristotelian necessities" (Foot, 2001,15). So, for example, the Aristotelian necessities associated with the Aristotelian categorical "is parasitic on standard wolves" might be such as: hiding whilst the

¹¹ This is often described analogously as a group of sailors replacing all the planks of their boat whilst it continues to remain afloat.

¹² The wolves' first nature involves rationality acting on values which might be described as representing brute self-interest. The Neurathian Principle tends to create a second nature in which self-interest is set in a social context.

hunt is in progress, unobtrusively joining the pack after the hunt, looking tired and dishevelled, and so forth.

At this point it might be claimed that this example is not very helpful; that it is no more than a sleight of hand. The wolf's two natures, it might be said, involve essentially the same self-regarding values. It would be more interesting to have an explanation of how the Neurathian principle can bring about a second nature whose Aristotelian necessities are other-regarding. Let us suppose that all the standard wolves acquire *logos* and consequently there are no standard wolves on which to be parasitic. Reason tells them that they must change their values or risk starving to death. They may attempt to hunt alone for their food but discover that this is exhausting and produces only limited quantities of food. In view of this, *logos* may suggest that they attempt to take from other wolves what little food they have managed to acquire. However, it might be imagined that the likely consequence of this is violent retaliation which reason may require, by way of a deterrent, to be reciprocated. In short, the wolves find themselves in a sort of Hobbesian pre-social condition in which life is "nasty, brutish and short" and from which reason tells them they should find a way out.

After a period of time in which they struggle to survive the wolves may learn that certain cooperative behaviours are beneficial. In this way they may begin to create for themselves Aristotelian necessities such as not stealing, telling the truth or keeping promises. The wolves are still essentially self-interested but they have a number of other-regarding values. On some occasions they will behave cooperatively but, more often, when it appears expedient, they may steal, lie or cheat. Eventually a point will be reached where their life is sufficiently comfortable and reason may tell them that they need pursue the process no further. They have a number of values belonging to their first nature but in addition they have others, such as keeping promises or not telling lies. These values tend to bind them to the Aristotelian categorical "is social" belonging to their new, partially formed, second natures.¹³ In this situation *logos* has two distinct sets of values to which it can be applied producing the potential for conflicting reasons to act. It may be that it is in just such a position that the

¹³ It might be said that, for humans, being social is part of our first nature associated with our vulnerability in a hostile environment, in a similar sense to that in which wolves hunt in packs. However, as will be seen, the concept of being social I am referring to here involves the possession of virtue which, as Aristotle observes, we are not equipped with by nature but are able to acquire. A more accurate claim might therefore be that it is our first nature to be dependent on each other but our second nature to be social.

majority of humans find ourselves.¹⁴ For reasons which will be considered later this is not an ideal situation to be in; but what to do about it?

McDowell explains that, once we have fully created a second nature we have a single set of values on which reason can operate. Under these circumstances the self-regarding values of our first nature are inaccessible to *logos* and consequently our other-regarding second nature values form the sole basis of action. As McDowell explains, forming a second nature "...effects a kind of distancing of the agent from the practical tendencies that are part of what we might call 'his first nature'" (McDowell, 1995,170). Consequently by fully creating a second nature we eliminate the need to reconcile conflicting choices. Each Aristotelian categorical of the human species has Aristotelian necessities associated with it which are actions resulting from the application of *logos* to the values which we describe as virtues. The virtues can be considered as excellences associated with those powers and capacities that humans have that are important in terms of our flourishing. That is, they are behaviours that optimally create and bind us to the Aristotelian categoricals that characterise humans and which many believe differentiate us from all other living things. The two Aristotelian categoricals which are believed to bring about this unique difference, "is rational" and "is social", are associated with the intellectual and moral virtues respectively.¹⁵ The intellectual virtues are described as excellences because they are behaviours that make the best use of *logos* in terms of the acquisition and exercise of wisdom. The moral virtues are those excellences of behaviour that promote the optimum conditions for harmonious and co-operative living. Thus, in order to fully flourish, humans require virtue.¹⁶

However, creating a second nature and thereby acquiring the virtues is not a simple process. It is time consuming and requires a great deal of effort, thus prompting the question "why bother?" To borrow MacIntyre's phrase, we are "dependant rational animals"(MacIntyre, 1999) and our mutual dependence and the consequent need for social living is sufficient to motivate us to partially create a second nature; but why go all the way? If we are reasonably comfortable, secure and well fed, why should we not just stay as we are with a combination of first and second nature values? We are, we might say, in a motivational trough.

¹⁴ In offering this analogy with wolves I am not suggesting that a Hobbesian pre-social condition was ever a part of human history but that it describes the sort of consequences we might expect from the exercise of reason by people who are vulnerable and frightened in a hostile environment.

¹⁵ "Is social" goes beyond the social characteristics of, say, bees. It can be considered to involve the application of rationality in order to organise community living so as to promote the common good.

¹⁶ Unless otherwise stipulated, subsequent references to virtue will infer either intellectual or moral virtue.

It is possible that the motivation we require to leave that trough can be derived from an understanding of the implications of the particular concept of happiness defended above. This involves two components, a feeling of being whole and undivided and a feeling of pleasure. Turning first to the concept of pleasure, Kraut (2009) offers a perspective, Developmentalism, from which the implications can be more clearly seen. He invites us to consider not what we believe to be good - that is, the objects of our desire - but what is "good for us". He argues that what is good for us is what contributes to our flourishing, that is, on our terms, acquiring and exercising the Aristotelian necessities relating to the Aristotelian categoricals of the human species. Furthermore, the Aristotelian categoricals referred to are those of our second nature which include "is social". Kraut makes the point that "...when we enjoy food, when we interact with friends, when we love language, we are enjoying the use of skills that originate in our inherent powers and emerge more fully through a process of training" (Kraut, 2009,146). However, he also suggests that we cannot simply say that what is not good for us is necessarily bad for us. It is clearly bad for us not to possess some component of flourishing, such as, say, the ability to walk. However, something such as drinking a glass of wine, which does not contribute to our flourishing, is not necessarily bad on this measure alone.¹⁷ Kraut explains that developmentalism, like hedonism, allows for three different sets of criteria; things that are good for us, things that are bad for us, and things that are indifferent in this respect (2009,150). Putting aside, for the moment, considerations of what is bad for us we can conceive of two classes of good. Those things that are good for us and those things that are the object of our desires. We might call those things that are good for us "developmental goods", which might include some goods which are also the object of our desire. The remaining goods, which are the object of our desire but are indifferent in respect of what is good for us or potentially harmful, we might call "hedonistic goods".

Kraut classifies developmental goods, those things that are good for us, in two different ways, instrumentally good and non-instrumentally good. We pursue an instrumental developmental good for the sake of something else but a non-instrumental developmental good we pursue for its own sake. Kraut gives the example of swimming.

Swimming may certainly be a good way for us to get across the lake, it may burn calories, it may maintain muscle tone; these are all good reasons for thinking that it is good for the swimmer as a means to further ends. But can it be good for him

¹⁷ I am aware that some medical professionals claim that alcohol is bad for us in any quantity. However, for our present purposes, I take it to be the case that alcohol is not damaging to our health if we observe the recommended safe limits.

apart from these results? If we have some temptation to answer affirmatively, that temptation will certainly be strongest when we think of someone who loves swimming – who, in other words, enjoys it. For when we think of someone swimming but deriving not the least bit of pleasure from doing so, it is difficult to believe that this could be good for him for any reason other than the good consequences of his activity (Kraut, 2009,127-8).

It can be said on this basis that instrumental goods are not necessarily pleasant and may be unpleasant whereas non-instrumental goods, because we pursue them for their own sake, are necessarily pleasant; we would not value them for themselves if they were otherwise.¹⁸ Furthermore, virtue, being an Aristotelian necessity is something we pursue for its own sake and thus is a non-instrumental good and consequently it is necessarily pleasant. What though of hedonistic goods such as a glass of wine? These are goods by virtue of their being pleasant not by virtue of their being “good for us”. Hedonistic goods are necessarily pleasant whereas developmental goods are necessarily pleasant if they are non-instrumental but not if they are instrumental.

Kraut warns us of a mistake we might make here; we cannot take it that because something is necessarily pleasant it is necessarily “good for us”. Pleasant things can be bad for us (Kraut, 2009,129). Furthermore, they can be bad for us in different ways. They can be bad for us by directly preventing us from flourishing or they can be bad for us by obstructing something that contributes to our flourishing. Alcohol consumption can directly prevent us from flourishing by damaging our livers but it can also result in us losing our job and thus the income we require to, say, buy the food which we require in order to flourish. However, Kraut describes a further way in which hedonistic goods can be bad for us and that is by “crowding out” developmental goods. Hedonistic goods require finite resources such as time and money that could otherwise be used in pursuit of developmental goods. Kraut invites us to consider:

...someone who enjoys playing checkers all day and every day. We offer him two options: he can remain, for the rest of his life, a full time checker player with no time for reading; or he can play checkers somewhat less often and with the additional time he has he can learn to enjoy good fiction, and he will continue to

¹⁸ I am considering goods here in the Aristotelian sense. That is, as our ultimate goal is happiness, those things that we apparently pursue for their own sake are pursued for their direct contribution to happiness and are therefore necessarily pleasant.

do so for the rest of his life. It would be implausible to claim that he should remain as he is (2009,178).

I will shortly return to considerations of pleasure but for the moment I will examine the other component of happiness, the feeling of being whole and undivided; if this is compared with the state of having both first and second nature values the conclusion might be drawn that it is the precise opposite. In this state we are divided between our first and second nature sets of values, and the conflicting choices with which *logos* inevitably presents us, when applied to those values, must surely generate a feeling of tension. In short we are in a state of unhappiness. The obvious solution to our unhappiness, expressed in this way, is to attempt to eliminate one or the other of our conflicting sets of values. That is, we can continue with the project of creating our second nature until it is complete or we can reverse the process and revert to our first nature. Consequently, we have a choice between what we might call respectively “Aristotelian” or “Nietzschean” strategies.¹⁹

That the second strategy might be considered, at least in some sense, Nietzschean is suggested by some of Foot’s comments on Nietzsche’s philosophy. These, which, although not expressed in the terms used above, seem closely related to some of the issues under consideration.²⁰ The first thing to note is Nietzsche’s antagonism towards Christian morality which, as Foot observes, involves “...teaching of the virtues of humility and compassion...” and which “Nietzsche wanted to show....as a ‘slave morality’ rooted not in anything fine or admirable but rather in weakness, fear and malice...” (Foot, 2002d,82). This suggests that Nietzsche believes that humans are unhappy due to a conflict between their first natures and Christian morality. It seems that this unhappiness may be concerned with at least some of the Aristotelian necessities relating to the type of second nature with which we are concerned.²¹ His solution was “a revaluation of values” which, Foot explains, involved “...a critique of moral values...” that is a “...calling into question ‘the value of these values themselves’.” This suggests that the process that Nietzsche was proposing was, in the sense of the term used earlier, Neurathian. Furthermore, that Nietzsche was proposing a revaluation of values that would lead back

¹⁹ It is logically possible to avoid this situation by employing a strategy that involves creating a different type of second nature. This would involve replacing “is social” with some other Aristotelian categorical. However, it is not clear what this might be suggesting that such a strategy may not be ontologically possible.

²⁰ I am not suggesting that Nietzsche’s arguments were based on a deliberate pursuit of happiness but that “the revaluation of values” has a number of notable similarities with the project of re-establishing our first nature values.

²¹ Christian morality is a specific interpretation of the virtues but it is possible that the Nietzschean strategy might commend itself to anyone who is unhappy with the imposition of virtue generally.

towards those of our disenchanted, self-regarding, nature is suggested by another of Foot's observations. She claims that Nietzsche "...is suggesting that what is praised as Christian virtue is largely a sham, and that true goodwill would be produced not by teaching the morality of compassion but rather by encouraging a 'healthy egoism'" (2002d,84). The idea that Nietzsche is contemplating a reversal of the creation of a second nature is reinforced by Foot's observation that Nietzsche "...insists that a strong will belongs only to one who has imposed discipline and *unity on his desires*" (2002d,90 my emphasis). Additional support for this idea is provided by Foot's description of Nietzsche's view of how the situation he deprecates came about.

In the beginning it was the strong, noble, privileged aristocrat who called himself good, and called those who lacked his own qualities bad. These old concepts were turned on their heads when the perspective of the weak prevailed....Where the old valuation had been positive the new was negative...(2002d,82).

However, it seems that the Nietzschean strategy has risks attached to it. In order to avoid the state of conflict that first nature values tend to create it is necessary for there to be significant numbers of others who possess sufficient second nature values to form an effectively functioning society. That this is so is suggested by Foot's observation that "...as for the members of 'the herd' [Nietzsche] said that he had no wish to change them; the spirit of the herd should rule within the herd. He is not, he insists, trying to preach his kind of virtue generally: it belongs only to the rare and exceptional man" (2002d,92). Furthermore, Foot points out that society in general, in some sense, values such exceptional men commenting that "I am thinking of the interest and admiration which is the common attitude to remarkable men of exceptional independence of mind and strength of will. Such men hold our attention, and are often willingly served" (2002d,89). However, it may be the case that as we revert to our first natures, and consequently our values become increasingly self-regarding, such admiration will tend to turn to antagonism. Foot explains that Nietzsche understood that in such conditions, "The strong man condemned by society for doing what his nature demands will suffer from guilt and self-hatred, and may well be turned into a criminal" (2002d,87). Rawls suggests some additional difficulties for this strategy when he considers the situation of a man who proposes to act as a free-rider. Unlike Nietzsche's strong man, he has no personal qualms about his proposed actions "...but he will have to reckon with the psychological cost of taking precautions and maintaining his pose, and with the loss of spontaneity and naturalness that results" (Rawls, 1999,499).

The view that Aristotelian morality or Nietzschean immorality are the only two plausible choices available to us in terms of how best to live our lives is given additional support by MacIntyre. Following a detailed examination of the moral theories which he claims have arisen subsequent to a discrediting of “Aristotelian teleology” he concludes that they all fail in their purpose of replacing Aristotelian ethics. However, he suggests that “Unless that tradition [to which Aristotelian ethics is central] could be rationally vindicated, Nietzsche’s stance would have a terrible plausibility”²² (MacIntyre, 2007,256).

Notwithstanding this, it seems clear from the above that what has been called the Nietzschean strategy is not a reliable route to happiness. It may work for some, relatively few, people some of the time and it may be tempting to think that we might be one of them, but viewed objectively it cannot be the rational choice. As Hursthouse observes, whatever choice we make there is no guarantee that we will be happy. She draws the analogy with medicine, pointing out that if we follow medical advice, say “not to smoke”, there is no guarantee that we will enjoy good health; we may still end up with lung cancer. This is the point with the two strategies discussed above. The Aristotelian strategy of completely creating a second nature in which *logos* binds us to the Aristotelian categorical “is social”, necessarily entailing virtue, will not guarantee happiness, but it is more likely to do so than the Nietzschean strategy. As Hursthouse observes “...the claim is not that possession of the virtues guarantees that one will flourish. The claim is that they are the only reliable bet – even though it is agreed, I might be unlucky and, precisely because of my virtue, wind up dying or with my life marred or ruined” (Hursthouse, 1999,172).

Although the Aristotelian strategy is the rational choice it is not easy to implement. The sides of the motivational trough are slippery and many of us will spend the whole of our lives trying to escape from it. It might be considered that such a condition is similar to that described by the Greek word *akrasia*, which is usually translated as weakness of will. On the interpretation defended above, in this state we are encouraged by our desire to be happy to act in accordance with virtue but, in the event, because we possess only partially formed second natures, the choices relating to our self-regarding values are those on which we usually act. As a consequence, in addition to the tension produced by having conflicting choices, we feel the shame and dissatisfaction of failing to act well. If, however, perhaps as a result of further moral education, we persist in the process of acquiring virtue we might reach the stage of

²² In his *After Virtue* MacIntyre expresses pessimism about the prospects of Aristotelian ethics in the context of modern society, unless, that is, we can return to a more up to date version of monasticism.(p263) This will be the subject of further discussion in chapter 3.

enkrasia or strength of will. In this state our second nature values predominate and more often than not we will choose to act in accordance with virtue. We still feel the tension of resolving competing choices but now we have the satisfaction of knowing that we have acted well. Finally, some will reach the point of *arete* or full virtue, the point where they have completely created a second nature and their old self-regarding values are no longer accessible to them. In this state they have the sense of being whole and undivided and free of tension. They always choose to act in accordance with virtue and take pleasure from doing so.

It is interesting to note, as Hursthouse points out, that there is a dispute between some ethicists concerning the relative moral worth of *enkrasia* and *arete*. She claims that some Kantians insist that the strong willed man is morally more admirable than the fully virtuous man and some Aristotelians make the opposite claim. She also observes that utilitarianism "...in its simplest forms, is uncommitted on what agents should feel when they act" (Hursthouse, 1999,91). The perspective we have taken does not shed any light on that debate but it does suggest that whether or not the fully virtuous man is more worthy than the strong willed man he is happier, at least on the understanding of happiness defended above. It may be, therefore, that *akrasia*, *enkrasia* and *arete* are best understood teleologically, as three stages in the process leading to human flourishing.

It was suggested earlier that many of us remain akratic throughout our lives, at least in respect of some actions on some occasions; the sides of the motivational trough seem just too steep for us. Given the above, it seems that we are unable to flourish fully and consequently cannot achieve the happiness associated with it. By way of compensation we might turn to the other aspect of happiness which was considered earlier, that is, pleasure. Pleasure is something that many of us prize highly and Hursthouse suggests that some people hold the view that virtue is inimical to pleasure. If this is true it might suggest that we should forget flourishing; *akrasia* is exactly what we want, being virtuous just spoils our fun. Hursthouse illustrates this point by reference to a "...charming Thurber cartoon which depicts a riotously drunk woman who is clearly having a whale of a time being contemplated with frosty disapproval by a dour man in a dog collar who is saying 'unhappy woman!'" (Hursthouse, 1999,185). As Hursthouse observes, the humour is derived from our understanding that the drunken woman, who we would definitely not describe as virtuous, gives every appearance of being happy, whereas the apparently virtuous man, who describes her as unhappy, does not. The irony, and with it the humour, is eliminated if we realise that the woman is not actually happy and the man is not

actually virtuous. We might describe the woman as akratic and the man as enkratic and therefore, on our understanding at least, neither of them can be considered truly happy.

Let us assume that the drunken woman is fully aware of the recommended safe limits for the consumption of alcohol and knows that it is not good for her to exceed them. However, being akratic, in the event she chooses to do so. We might say that she is treating the alcohol as a hedonistic good in order to compensate for the unhappiness she feels as a consequence of the sense of division and tension associated with *akrasia*. The consequences however are likely to lead to even greater unhappiness. In addition to the shame of not having acted well she risks cirrhosis of the liver, not to mention the following day's hangover. On the other hand the man with the dog-collar is presumed to be someone to whom the virtues are important, whose calling demands their observance. However, measured by what Hursthouse calls the "smile factor" (Hursthouse, 1999,185) he is clearly not happy, he has the appearance of being virtuous but is merely enkratic. We might imagine him enjoying a glass of wine but through the exercise of willpower restricting himself to just one glass. However, the pleasure he derives from the single glass of wine he permits himself does not compensate for the unhappiness associated with feeling divided and tense.

The above suggests that in respect of the pursuit of happiness hedonistic pleasures can only make a limited contribution and, as suggested by Kraut, have the potential to be harmful. True happiness requires the sense of being whole and undivided and free of tension associated with flourishing and, as has been argued above, for this the possession of virtue is a necessary requirement.

Understanding why virtue has this crucial role can be assisted by an examination of Broadie's idea of a "eudaimonic field" which she offers as a means of explaining the relationship of virtue, the activity of excellence, to the various goods in a happy life.

The idea, then, is that activity of excellence in relation to the elements of a complete life, whether severally or together, is what makes those so-called advantages worth having. I say "so-called," because, although everyone wants them and acts and feels about them as if they are worth having and would contribute to happiness, outside the context of actual or assured activity of excellence, they are, at most, conditional promises of advantage. Activity of excellence, actual or assured, discharges the condition. It provides, as it were, a field – we could call it the "eudaimonic field" – in which those items take on the

substantiality of goodness and count as ingredients of genuine happiness (Broadie, 1999,245).

In the terms defended above the possession of virtue creates the condition of feeling whole and undivided and free of tension in which the pleasure associated with the other goods can be fully and appropriately enjoyed. Broadie describes this as “...a life of reasonable span, adequately blessed with health, material goods, the respect of others, friends, a satisfactory family, enjoyable pursuits, and perhaps other things that people generally regard as desirable” (1999,242). Broadie explains how virtue stands to the other goods in the context of a happy life:

...activity of excellence becomes happiness in the presence of the other elements (the ones making up a complete life), while they in turn, if sufficiently provided, become happiness in the presence of *it*. But these contributions to happiness are not symmetrical. Activity of excellence contributes by being already, from its own nature, unconditionally good. That is why it can make the otherwise valueless others good, rendering them constituents of a way of being which is properly called “happiness” (1999,247 original emphasis).

To understand why virtue has this dominant role in such a life it is necessary to look beneath the surface of the eudaimonic field at the forces at work within. The degree of happiness we feel can be treated as being the resolution of opposing forces in our lives. Some forces tend to promote happiness whereas others impede it, these can be called “contributing” and “detracting” forces respectively. Virtue, as has been argued, is a contributing force as is pleasure. Good luck should also be included as a contributing force as being something that gives us unexpected assistance in achieving our goals.²³ The detracting forces, then, are the opposites of these, vice, pain²⁴ and bad luck. If we are in a condition of less than complete happiness we will wish to increase our happiness and to do so we must bring about a net increase in the overall contributing force. In order to be clear about what this entails the relationship of the opposing pairs will be examined. In considering a eudaimonic field in this

²³ It can be claimed that good luck is no more than a contingently ideal event in our lives and to describe it as a force may be misleading: an observation for which I am grateful to Ema Sullivan-Bissett. However, to the extent that good luck assists us towards a goal (and bad luck obstructs us) I feel that describing it as a force can be justified.

²⁴ I am referring here specifically to the pain associated with our desires being frustrated and not the physical pain associated with, say, a bodily injury.

way it is possible to explain the asymmetry to which Broadie refers and show that virtue is dominant in terms of its contribution to happiness.

The first thing to establish is that, being by definition beyond our control, good and bad luck can be discounted from our plans. That is not to say that they are not important in terms of our happiness; they are, very, but being unpredictable they can have no part in a strategy. This leaves the two pairings, virtue/vice and pleasure/pain. Considering the latter of these first. If pleasure is defined as the satisfaction of desire and pain as its frustration it seems that we might increase our happiness if we create new desires to satisfy or satisfy those in which we are frustrated. This definition of pain excludes the sensation associated with, for example, a headache or a broken leg. This type of pain is not caused by frustrated desire but we do have a desire for it to cease and, in the event that it does, we might be said to experience pleasure. However, that route to happiness seems to lack plausibility. We might try to increase our happiness by creating desires in order to enjoy the pleasure of satisfying them but this seems odd. It seems to be the sort of thing described by the joke concerning the man who on being asked why he was banging his head against a wall replied “because it is lovely when I stop.” Pain, it can be suggested, involves a desire that we have that we cannot satisfy, including the desire to be free of physical pain, and pleasure is a desire that we *do* satisfy and the two are not necessarily related to each other. It is true that we do find pleasure from satisfying previously frustrated desires, such as the prisoner’s pleasure on satisfying his desire to be free that follows from his release. However, generally, pain, as we are considering it, must involve a frustrated desire that we are unable to satisfy, otherwise we would have satisfied it and we would be back in the “head banging” situation. It seems that, usually, pleasure and pain are in simple opposition. For example, a prisoner, experiencing the pain of a frustrated desire to be free, might take solace from the pleasure of reading a book given to him by a kind warder. In this situation the pleasure of reading does not eliminate the pain of imprisonment it merely mitigates it.

Turning now to the virtue/vice pairing; it can be demonstrated that this relationship is different to the simple opposition of pleasure and pain and consequently its potential impact on happiness is much greater. In the *Nicomachean Ethics* Aristotle gives the following definition of virtue. “Virtue, then, is a state of character concerned with choice, lying in a mean, i.e. the mean relative to us, this being determined by a rational principle, and by that principle by which the man of practical wisdom would determine it” (NE II.6 1106b36 – 1107a3). How, then, do we go about using this definition in order to evaluate the degree to

which a person possesses virtue? What, for example, is the basis of the claim that one person is extremely virtuous whereas another is only moderately so? Clearly, practical wisdom involves action so we might take a person's deliberately chosen actions as an indicator of virtue. On this measure, if we determined a person's actions as lying in a mean we would call him virtuous, but what is it for an action to lie in a mean?

Aristotle explains that the mean falls between two vices which are excesses or deficiencies in respect of a particular kind of action or emotion (1107a3-7). The virtue of courage, for example, lies between the vices of recklessness and cowardice. What is it, then, to be largely courageous? We might say that most of such a person's actions lie in the mean, but what of those that do not; does it matter where these lie? If we only evaluate a person according to the proportion of her actions that lie in the mean we can say nothing of a person all of whose actions lie between the mean and the extreme. Similarly, might we describe a person as vicious on the basis of one extreme action when all his other actions lie close to the mean? Alternatively, we might base our evaluation on the way we perceive a person's actions to be distributed along the scale relative to a particular kind of behaviour or emotion. We would thus describe as virtuous someone whose actions were skewed towards the mean and vicious if skewed towards the extreme. However, if we were to attempt to do this it would require an implausible degree of judgement and simply have the effect of blurring the distinction between the mean and the extremes.

It seems that, in reality, we make a simple judgement about whether, on a given occasion, a person's action is virtuous or vicious and we assess her character over a number of such occasions by estimating a notional ratio of the two. If this is the case, for a person to increase in virtue is for him to increase the number of virtuous actions he performs. However, a life contains a finite number of opportunities to act, such that on every occasion we choose to act virtuously we have one less opportunity to act viciously. This seems to hold even if we take a unified perspective of the virtues. From this perspective, whenever we (apparently) act virtuously we increase the likelihood of being considered to be of a virtuous character and consequently decrease the likelihood of being considered vicious. Therefore, from either perspective, virtue and vice can be considered to stand in inverse proportion to each other.²⁵

²⁵ In the case of a tragic moral dilemma acting virtuously in one respect may necessitate acting viciously in another respect. In this case a single opportunity to act will produce emotions of happiness and unhappiness that are in simple opposition. Furthermore, if the dilemma is unresolvable the net result will be unhappiness. However, because, hopefully, such events are not frequent in the lives of the

Returning to the consideration of the eudaimonic field the implications of the above can be clearly seen. If we choose to pursue happiness by increasing hedonistic pleasures we merely increase the strength of the force promoting happiness. In contrast, if we pursue happiness through the acquisition of virtue we strengthen the promoting force but we also weaken the opposing force. This demonstrates the asymmetry of virtue to pleasure to which Broadie referred; suggesting that in some way virtue amplifies pleasure.²⁶ This may help to explain why the German letter-writers mentioned by Foot could remain happy in the face of the pain of impending execution or even why perfect happiness might be obtained with only the pleasure of contemplation. That is, the possession of a sufficiently strong eudaimonic field seems to be capable of providing a degree of happiness even if it is only minimally populated with goods.

At this point the examination of happiness is complete, but what do the findings suggest? They might simply be rejected as being based on false premises or invalid arguments. However, if we are inclined to believe that the premises are true, or at least approximate to the truth, and the arguments are valid, the conclusions demand that we act in a particular way. That this is the case is suggested by Foot's examination of the implications of the distinction between hypothetical and categorical imperatives. She cites Kant in explaining that a hypothetical imperative is something we must do if we wish to achieve a further goal, whereas a categorical imperative is something we must do for its own sake (Foot, 2002c,158). Following Foot's lead the example of a club can be used to illustrate this distinction. Imagine a club the rules of which require its members to, say, parade through their town on a Sunday morning wearing a particular type of red gown; we might call it the "Sunday Club". If we are a member of the Sunday Club it is imperative that we parade in our gowns in the required manner. We do this for the simple reason that this is what Sunday Club membership demands; the rule is, therefore, for us, a categorical imperative. However, if we are not members of the Sunday Club but mere observers of the spectacle, parading in a red gown is not something we feel the need to do; we may think it quaint or even foolish. The rules only apply if we are members of the club. Foot argues that morality can be viewed in the same manner (2002c,164). The implications of this can be considered in respect of virtue.

As has been argued, possession of virtue is a necessary condition for the rational pursuit of happiness. Consequently, we might describe the virtues as rules of the "Happiness Club" and

majority of people it should not invalidate the general principle of inverse proportionality between virtue and vice.

²⁶ I am not suggesting that a eudaimonic field functions in a manner that can be described precisely by reference to forces but that such a description illustrates the *types* of relationship that exist within it.

thus they are categorical imperatives only for the set of people who want to be happy. However, *ex hypothesi*, the set of people who want to be happy just is the set of all rational people. There is no position we can rationally adopt where the virtues can be anything other than categorical imperatives.²⁷ However, it has also been argued that virtue is not sufficient for happiness; we also need the other goods that populate a eudaimonic field. Consequently, membership of the Happiness Club also demands the possession of sufficient other goods and, therefore, it seems that this also is a categorical imperative. Expressed differently, we might make the claim that “everyone *ought* to create and maintain a sufficiently populated eudaimonic field”. However, there is a widely accepted principle that “ought infers can” and it is not obvious that everyone *can* create a sufficiently populated eudaimonic field.

Satisfying the “can” requirement involves meeting two demands, those of ability and opportunity. For example if one of our goods is reading, we must have learned to read and must have access to reading material. This applies to virtue in the same way; we must have had moral education such that we have learned how to be virtuous and we must have the opportunity to exercise our virtue. This idea of a combination of ability and opportunity is what Nussbaum describes as a capability. She points out that capabilities “...are not just abilities residing inside a person but also the freedoms or opportunities created by a combination of personal abilities and the political, social, and economic environment” (Nussbaum, 2011,20). Consequently, it might be claimed that if it is a categorical imperative to create and maintain a suitably populated eudaimonic field it is also a categorical imperative to create the capability of doing so: but for whom? Nussbaum, and Aristotle, believe that the answer is “the State” and why this should be and what it entails is the subject of the next chapter.²⁸

²⁷ This conclusion may be interpreted as involving arguments concerning the existence, or otherwise, of moral truths. Being concerned with happiness rather than morality it may be thought to favour the position of the moral sceptic. However, it merely states that virtue is necessary in order to create the second nature that humans require if they are to stand the best chance of achieving true happiness. The conclusion says nothing about the epistemological status of virtue. It may be the product of *logos* acting on moral truths, such that any species possessing *logos* would have the same or a similar set of virtues. Conversely, virtue may be the consequence of *logos* acting on contingent facts concerning what it is to be human, leading to the possibility of significantly different conceptions of virtue being held by other rational species. For a discussion of the arguments for and against the existence of moral truths see FitzPatrick (2012).

²⁸ I am grateful to Ema Sullivan-Bissett for her useful comments on this chapter.

Chapter 2

Capabilities and the Role of the State

At the beginning of the *Politics* Aristotle makes the claim that the origins of the State lie in the satisfaction of man's basic needs but that in its ultimate form it exists "...for the sake of a good life" (125b30). Whereas, Nussbaum argues that it is the role of an even minimally just State to provide "...an ample threshold level of ten Central Capabilities..." (Nussbaum, 2011:32,169).

In this chapter I will examine the implications of the above and attempt to identify the essential properties that a State must possess in order to meet the demands these claims entail. I begin by comparing Aristotle's arguments concerning the origins of the State with the conception of happiness formulated in Chapter 1. I will go on to consider the nature of the ten Central Capabilities and explore why it might be thought to be the responsibility of a just State to provide them for its citizens. I will attempt to show that Nussbaum's requirements of a just State mirror Aristotle's teleological conception of the State and must be met if Aristotle's conception of "a good life" is to be achieved. In doing so I will claim that particular emphasis must be placed on the acquisition and exercise of virtue if the State is to provide the conditions such that all its citizens are able to secure true happiness. Finally I will endeavour to identify the conditions that a political order must bring about if it is to meet its responsibility for creating the capability of happiness for each of its citizens.

In the *Politics*, Aristotle famously made the claim that the State is a creation of nature and in support of this described a process of which the *telos* is the State. The process he describes begins with the family which in combination with other families form a village and when several villages combine the State comes into being and the process is complete (1252b10-33). Miller (1995:40) suggests that the nature that Aristotle appeals to is that of human nature. This is a view endorsed by Kullmann who identifies two factors leading to the creation of the State. Firstly, and most importantly, the biological need for social living and secondly "...the conscious, specifically human striving after gain and happiness, which manifests itself in the detailed shaping of the state" (Kullmann, 1991:102). Aristotle's description of the teleology of the State has similarities with the processes and pressures associated with the emergence and development of virtue, which were considered in the previous chapter.

Miller suggests that Aristotle attributes the origin of the family to the satisfaction of two basic needs, "...the striving to leave behind offspring like oneself..." and "...the combination of natural ruler and ruled for the sake of preservation and mutual advantage" (Miller Jr, 1995:39). The first of these needs clearly relates to the Aristotelian categorical "reproduces sexually" and it seems that the second represents the first step in the Neurathian process which is analogous to escaping from the Hobbesian pre-social condition. That is, it appears to be a relationship that is fundamental to the principle of mutual cooperation that vulnerable, rational, individuals require for survival.²⁹ From this perspective it is probable that the need for humans to cooperate in order to overcome their vulnerability would also account for the creation of the village as a more robust means of obtaining security and subsistence. Beyond this point the accretion of several villages ultimately resulting in the State might be understood in terms of the pressures associated with the pursuit of happiness. Larger social groupings would presumably facilitate more sophisticated pleasures and more extensive social and political intercourse. These increasingly complex social conditions might serve to encourage the acquisition of the virtues such that, in the State, man has the circumstances necessary to create a sufficiently populated eudaimonic field. It is in this sense the State might be considered to be self-sufficient.

It is also in this sense that the State is "for the sake of" happiness, that is, it has come about as a consequence of the pursuit of happiness. Happiness, as has been argued, is the condition associated with a flourishing specimen of the human species. It is, *ex-hypothesi*, the condition which all rational humans wish to achieve. Edel (1996:71) points out that Aristotle's principal means of identifying what is natural is to look for "what happens universally or for the most part". In this respect we can call the pursuit of happiness natural. As was seen in Chapter 1, the rational pursuit of happiness involves creating a second nature in which the possession of virtue binds us to the Aristotelian categorical "is social" and which creates the eudaimonic field that, when sufficiently populated with other goods, constitutes happiness.³⁰ Annas (1996) seems to be describing something similar to McDowell's (1995) idea of first and second natures when she refers to "mere nature" and "full nature" and suggests that, for Aristotle, "Humans are equipped by mere nature to develop virtue, but do not do so unless habit is directed by reason to produce a rational direction of one's life and employment of external goods" (Annas, 1996:736-7). This supports the conception of happiness defended in the previous chapter by suggesting that, by the acquisition of virtue and its exercise in respect of

²⁹ This relationship will be discussed in more detail later in this chapter.

³⁰ What constitutes a sufficiently populated eudaimonic field will be discussed later in this chapter.

the external goods we possess, we progress from “mere nature” to “full nature”. We might, therefore, describe as natural anything that contributes to our ability to possess a sufficiently populated eudaimonic field and anything that denies us that ability we might call unnatural.³¹

However, Aristotle also uses the term natural, and its negation, unnatural, in respect of the various practices involved in the functioning of the State. Annas makes the point that, for Aristotle, “...it is only when habit is directed by reason to produce dispositions to engage socially, culturally, and politically with others in a form of society (one which Aristotle identifies with the polis) that humans achieve the goal of natural development” (Annas, 1996:737). Consequently, we might say that those practices that promote the ultimate goal of the State - that is, happiness - are deemed to be natural and those that oppose it are considered unnatural. Furthermore, as observed in the previous chapter, developmental goods are those that are involved in the exercise or development of those human attributes the possession of which is necessary for flourishing or, in the terms argued for, possessing a sufficiently populated eudaimonic field. Consequently, developmental goods might be described as natural. Conversely, on this basis, practices that interfere with our ability to possess a sufficiently populated eudaimonic field are unnatural and this can include the excessive or inappropriate use of hedonistic goods. Subsequent use of the terms natural and unnatural will follow this understanding.

With this Aristotelian idea of the role of the State in mind I will turn to Nussbaum’s (2011:169) claim that the role of a just State is to provide at least a threshold level of ten Central Capabilities. Firstly, the demands that justice places on the State will be considered. Justice is generally considered to involve considerations of need, desert and right but for present purposes it is sufficient to restrict the inquiry to considerations of needs and rights.³² Galston describes justice as involving a state of affairs in which an individual is seen to rightfully possess some good or goods, which is to have some valid claim to it or them. He goes on to suggest that need is a fundamentally valid claim which he defines as the “...lack of the ensemble of means needed to realise the human goods of preservation and development” (Galston, 1980:5). Nussbaum makes a similar point when she describes rights as “...often spoken of as entitlements that belong to all human beings simply because they are human, or

³¹ Natural used in this sense can include entities that do not occur in nature, such as artefacts. In this sense, a house, for example, is deemed natural, even though it is a human construction, because it provides the shelter and security humans require in order to flourish. That is, it is natural because it contributes to our happiness.

³² The implications of just deserts and rights in respect of the role of the State will be discussed further in chapter 3.

as especially urgent interests of human beings that deserve protection regardless of where people are situated” (Nussbaum, 1997:273). Happiness, as the ultimate goal of all rational people, should be considered as one such, if not the foremost, interest. Consequently, it might be said that all human beings have a right to the opportunity to achieve happiness. Furthermore, Galston makes the point that “All judgements of justice and injustice are ultimately relative to individuals” (Galston, 1980:106). Consequently we might expect a just State to be one which is disposed to treat all its citizens justly and thus Galston (1980:265-271) is surely right in suggesting that citizenship represents a qualification to the status of having an equal claim to the satisfaction of urgent needs.

To summarise the various features of justice noted above: a just State is one that provides the means of achieving happiness for each and every one of its citizens. However, such a claim is indeterminate with respect to the two strategies for the pursuit of happiness, Nietzschean and Aristotelian described in Chapter 1. In that chapter the Nietzschean strategy was rejected as not being the rational choice and it can be rejected here as being inappropriate for a just society. The Nietzschean strategy involves a necessary inequality because, as was observed, it is only available to some. If it were to be pursued by all its citizens the State would inevitably collapse into the equivalent of a Hobbesian pre-social condition where happiness would be impossible. Consequently it might be concluded that Nussbaum’s requirements for a just State entail a State that supports the Aristotelian strategy.

However, there is a basic difference in principle between Nussbaum and Aristotle in respect of the role of the State. Nussbaum claims that Aristotle is concerned with a specific conception of happiness such that the role of his ideal State stipulates a particular way of functioning for its members. That is, she believes that Aristotle insists on happiness necessarily involving the exercise of virtue specifically in the context of participation in government. By contrast, Nussbaum’s (2000:124) conception of happiness is pluralistic and consequently must accommodate different varieties of functioning. It is for this reason that Nussbaum insists that it is the role of the State to create capabilities and not specific ways of functioning. Therefore it is necessary try to understand why this is and consequently how, if at all, capabilities fit with the conception of happiness defended above.

The distinction between promoting a particular form of functioning and creating capabilities can be described in terms of Rasmussen and Den Uyl’s (2005:34) distinction between norms and metanorms. Norms seek to bring about a particular type of behaviour, that is, to guide conduct. By contrast, metanorms seek to bring about conditions under which particular types

of behaviour are possible, that is, to regulate conduct. As virtue is considered to be normative Nussbaum and Rasmussen and Den Uyl reject it as not being the appropriate goal of a political system. The question of whether politics should concern itself with norms or be restricted to establishing metanorms lies at the heart of the disagreement between communitarians and liberals which will be considered in the next chapter. However, for the present, it is suggested that, because of the particular conception of happiness defended above, virtue can be considered as both normative and metanormative. It is clearly normative in the sense that it informs the individual choices that we make. However, it might also be considered to be metanormative in the sense that it regulates our conduct so as to make possible circumstances that constitute happiness. As was argued in the previous chapter, happiness consists in possessing a sufficiently populated eudaimonic field and virtue is necessary to create such a field. Expressed differently, virtue creates the eudaimonic field without which we are not *capable* of being fully happy. Consequently, virtue can be considered to be necessary for what can be called “the capability of happiness”. That is, in this context, virtue is fulfilling a metanormative role. It is serving to regulate conduct so as to bring about the conditions under which the goal of true happiness can be attained.

However, Rasmussen and Den Uyl (2005:272,274) suggest a potential objection to this claim. They argue that there are six requirements for metanormativity and that virtue fails to satisfy two of these. Their objection rests on the need for metanorms to be generalities whereas they claim that the virtues can only be understood in relation to individuals. They argue that, firstly, virtues are just one type of good amongst many with no means of ranking them in relation to the desires of a particular individual. Secondly, they claim that individual virtues mean significantly different things to different people in different circumstances. For example, the virtue of bravery for a soldier can be perceived of as being very different from that of, say, an accountant. Clearly, if the argument that virtue can be considered metanormatively is to stand these claims must be refuted.

The first claim can be addressed by invoking the conception of happiness as involving a eudaimonic field. In the previous chapter the dominant role of virtue in creating such a field, and its power in terms of amplifying pleasure, was demonstrated. This might be considered to be sufficient to grant virtue pre-eminence as a good for all rational humans. Consequently, it

seems that virtue is more than one good amongst many and thus Rasmussen and Den Uyl's first claim fails, at least on the basis of the conception of happiness defended above.³³

In order to refute the second claim Foot's assistance will be enlisted, but first it is important to understand what it entails. In order to do this, consider again the idea of virtue as it relates to a soldier and an accountant. Clearly in these instances the virtue of courage is instantiated in different ways. We might imagine a brave soldier rescuing a wounded colleague whilst under heavy fire. Whereas a brave accountant may be one who merely stands up to the office bully. If this is the basis of Rasmussen and Den Uyl's claim then it seems that the difference in virtue from person to person is quantitative rather than qualitative. However, it seems that if their rejection of virtue as a metanormative principle is to stand they must demonstrate a qualitative difference. That is, they must show that it is the case that virtue is a matter of individual evaluation rather than objective fact. However, as Foot (2002a:99) argues, if this were the case moral dialogue would be meaningless. She points out that if someone were to be accused of stealing they could simply deny that this was the case by claiming that their actions were not consistent with their personal evaluation of what constitutes stealing. Foot makes the point that "Anyone who uses moral terms at all, whether to assert or deny a moral proposition, must abide by the rules for their use, including the rules concerning what shall count as evidence for or against the moral judgement concerned" (2002a:105). Foot explains that these moral rules are underpinned by generally accepted definitions of moral behaviour such that, for example, bravery might be defined as putting oneself in the way of a perceived danger for the sake of a good (2002b:119). That an accountant exhibits bravery differently to a soldier concerns what constitutes his perception of danger not what is involved in bravery.³⁴ On this basis it appears that Rasmussen and Den Uyl's second claim fails; the virtues are objectively the same for everyone, they only vary in terms of their expression in action. Consequently it seems that we can safely consider virtue metanormatively as the architectonic component of the capability of happiness.

Having considered a sense in which virtue might be said to form part of Nussbaum's conception of capabilities, the question of how capabilities contribute to our conception of

³³ Furthermore, virtue can be viewed as providing a basic principle for ranking other goods. Such a ranking would suggest that non-instrumental developmental goods are preferable to instrumental developmental goods because the former are necessarily pleasant whereas the latter are not. In addition, both are preferable to hedonistic goods, which are merely pleasant and have the potential to be bad for us.

³⁴ By providing a ranking of goods, virtue also serves to determine whether or not a particular good justifies the risk associated with a particular act of bravery.

happiness will be considered. Nussbaum makes the point that the ten Central Capabilities are such that "...a life that lacks any one of these, no matter what else it has, will be regarded as seriously lacking in humanness" (Nussbaum, 1990:225). Viewed in this way we might expect these capabilities to be closely related to the Aristotelian categoricals of the human species, the possession of which is central to the conception of happiness defended in the previous chapter. An examination of the ten Central Capabilities confirms that this is the case. The first three capabilities are "Life", "Bodily health" and "Bodily integrity" and clearly relate to the human life cycle. They involve abilities such as living a life of normal length, having good general and reproductive health and having sufficient food and shelter. They also provide for freedom of movement and freedom from violent assault (Nussbaum, 2011:33-4). These three capabilities might be considered to be concerned with creating the circumstances such that our lives are not "nasty, brutish and short". Capabilities four to six are "Senses, imagination and thought", "Emotions" and "Practical reason". These involve the ability to imagine and reason which is supported by education in, at least, literacy, mathematics and science. They also provide for the ability to love and care for others and to form some sort of a plan concerning how we should live our lives. These capabilities might be viewed as being at least some of those that we require to escape from the motivational trough that, as was described in the previous chapter, lies between a life that is relatively free of pain and one that is truly happy. The final four capabilities are "Affiliation", "Other species", "Play" and "Control over one's environment" and include the ability to live with and be concerned for others which is extended to animals, plants and the environment generally. These capabilities also provide for the ability to enjoy recreational activities, participate in political processes, own property and obtain employment. These capabilities, in combination with the previous three, might be considered to relate to the development of the virtues and populating the eudaimonic field that their possession creates.³⁵

It might be said that, as the acquisition and exercise of virtue is implicit in Nussbaum's ten Central Capabilities, creating them is supportive of the State's responsibility for creating the capability of happiness. In fact, Nussbaum claims that a just State will at least provide a threshold level of these capabilities such that its citizens will have the ability "...to pursue a dignified and minimally flourishing life." If so, in providing the threshold level of the ten Central Capabilities the State is providing each of its citizens with the opportunity to possess a sufficiently populated eudaimonic field. That is, it is creating the capability of happiness. The

³⁵ A full description of the ten Central Capabilities is included in chapter 2 of Martha Nussbaum's *Creating Capabilities*.

virtue implicit in the Central Capabilities, it could be argued, would serve to create the eudaimonic field and the material content of the threshold level of these capabilities would sufficiently populate it.

However, although supporting my position, this is insufficient for present purposes. Because, as has been argued, virtue is the dominant component of happiness its implicit presence in the ten Central Capabilities may not be sufficient to do the work required of it. The acquisition and exercise of virtue is not a matter of chance, it requires a particular set of circumstances which, given its importance to happiness, should be made explicit in the context of creating a sufficiently populated eudaimonic field. In providing a threshold level of the ten Central Capabilities, the State can be considered to be providing the means of sufficiently populating a eudaimonic field. However, if citizens are to be provided with the capability of happiness the State must provide them with the opportunity to acquire and exercise virtue. It is only by doing this that the State can ensure that each citizen has the opportunity to create a eudaimonic field that the threshold level of the ten Central Capabilities can then sufficiently populate.

Given this we need to ask the question “how can the State provide each and every citizen with the capability of creating and maintaining a sufficiently populated eudaimonic field?”. We might describe a State that succeeds in this as a “eudaimonic State”, the paradigm of which is Aristotle’s “ideal *polis*”. To answer the question, then, I propose to examine the *polis* in order to establish the additional requirements for the achievement of happiness. As observed earlier, in his ideal *polis* Aristotle stipulates a particular form of happiness whereas what is being defended here is a conception of happiness which involves a plurality of goods. Therefore, in examining the *polis* an attempt will be made to separate out those features which are specific to Aristotle’s conception of happiness from those which are necessary for happiness generally.

The first thing we notice about the *polis* is its size; compared with the modern State it appears very small. Taylor offers a description of the *polis* as “...inhabiting a roughly continuous and fairly small tract of land, usually containing a single urban centre and a number of smaller settlements” (Taylor, 1995:223-4). For an idea of one of the largest instantiations of the *polis*, Bradley invites us to imagine “...an English county with a single city and its surrounding territory...” which is “...independent and sovereign...” (Bradley, 1991:14-5). Aguilar (2007:111) estimates that Athens at the time of Aristotle had a total population of the order of 140,000

people and suggests that even at this relatively modest size Aristotle considered it too large. Why then does Aristotle feel the need to stipulate limits to the size of his ideal *polis*?

In book VII of the *Politics* we see that size constraints are related to the need for self-sufficiency. If the population is too small it cannot provide for all the population's needs and if it is too large it becomes ungovernable (1326b2-6). Similarly, the physical dimensions of the State are important. It must be large enough to produce all the goods the citizens require for a flourishing life (1326b26-31) but on the other hand it must be small enough to permit effective defence against a military attack or the threat of illegal immigration and for the transport of goods such as the products of agriculture or forestry to the main centre of population (1326b38-1237a10). There therefore seem to be two size dependant criteria that must be met in a eudaimonic State; satisfaction of the material needs of life and provision of effective governance.

Dealing first with the material needs; in the terms defended above, this seems to represent a requirement that is met by the first three of the ten central capabilities. That is, having a normal human lifespan, enjoying good health, having sufficient nourishment and shelter, having freedom of movement and being protected from physical violence (Nussbaum, 2011:33). In the case of effective governance, the most straight-forward requirement is the ability to communicate effectively and the larger the State the more difficult Aristotle considered this would become, summing up the problem succinctly: "For who can be the general of such a vast multitude, or who the herald, unless he have the voice of a stentor" (1326b6-8). However, Aristotle's communication needs go much deeper than this, as he explains:

For both governors and governed have duties to perform; the special functions of a governor are to command and to judge. But if the citizens of a state are to judge and to distribute offices according to merit, then they must know each other's characters; where they do not possess this knowledge, both the election to offices and the decision of lawsuits will go wrong (1326b12-19).

Aristotle's requirement for the distribution of offices by merit is an important one and the implications of this will be discussed later, for the present though I will concentrate on the importance of "knowing someone's character". Bradley (1991) explains the importance of character, one's own and that of others, in the context of its role in the functioning of the *polis*. The citizen's political involvement was a matter of daily routine, the principal political

figures of the day were well known to him and he regularly encountered his political opponents during the course of his various activities. Furthermore, he was fully aware of the importance of his actions in terms of their impact on the welfare of the State. “Under these conditions, the rise and fall of a state visibly depended on the character of its citizens; its greatness was nothing but the outward sign of their energy and devotion; the failure of virtue in them acted immediately on it” (Bradley, 1991:15). As Bielskis explains, “A well functioning political community is impossible without its members being able to exercise the fundamental virtues of wisdom, justice, courage and temperance” (Bielskis, 2008:85). Aristotle understood that the possession of a virtuous character required habituation, two of the major components of which are the observance of the behaviour of virtuous people and practice in the exercise of one’s own virtue. Hence, we can see that knowledge of another’s character has two aspects which Aristotle considered to be necessary. Firstly, that which involves observation of the actions of others as a means to the acquisition of a virtuous character and secondly, that which involves judging the character of others in order to assess their worth as virtuous citizens. For this, immersion in the milieu of political activity was of critical importance. Bielskis uses the term “proximity” to describe this characteristic of the *polis* which Aristotle considered necessary for its “well functioning” in the manner described above and which was thus a major reason for him setting limits to its size.³⁶

The above suggest that proximity has an essential role to play in effective communication, the acquisition and exercise of virtue and, consequently, good governance. Therefore, the extent to which the Central Capabilities support the functions involved in the principle of proximity should be examined. Those that seem to apply are, “Being able to use the senses, to imagine, think and reason...” “...to love, to grieve, to experience longing, gratitude, and justified anger.” “Being able to form a conception of the good and to engage in critical reflection about the planning of one’s life.” “Being able to live with and toward others, to recognize and show concern for other human beings, to engage in various forms of social interaction; to be able to imagine the situation of another” (Nussbaum, 2011:33-4). However, an important aspect of proximity that is not fully reflected in the Central Capabilities concerns the impact of one’s actions. The capability of “Affiliation” refers to the ability to imagine the situation of another but it seems that virtue might require more than this. In order to be fully virtuous, we need to be able to understand and respond to the impact our actions might have on the capability of

³⁶ Proximity is a useful concept to use here as long as it is recognised that, in this usage, it has much more content than is suggested by the standard dictionary definition of “nearness in space, time and relationship”. My subsequent use of the word will imply that wider meaning.

others to achieve happiness. The importance of proximity in bringing this about will be discussed in the next chapter. However, for the present it is sufficient to note that proximity appears to be an essential feature of a eudaimonic State.³⁷

The second striking feature of Aristotle's ideal *polis* is its constitution and in particular the ratio of citizens to total population. Of the 140,000 total population of ancient Athens estimated by Aguilar, based on the census of 317 BCE, only approximately 20,000 were adult male citizens (Aguilar, 2007:111). Clearly, a State where only of the order of 15% of the population are classed as citizens would be considered extraordinary by modern standards.

To understand why a situation totally unacceptable to us should be considered by Aristotle to be the ideal we need to understand Aristotle's discussion of different types of government which takes place in the *Politics* III.7. Aristotle begins by establishing three basic types of government, those where authority lies "...in the hands of one, or of a few, or of the many" (1279a27). Each of these types can exist in two forms, true and perverted. True forms are those which are governed "...with a view to the common interest..." and conversely those that are governed "...with a view to the private interest..." are perversions (1279a28-33). To the extent that the common interest is that of happiness, as it is in the eudaimonic State, and that private interest obstructs the pursuit of the common interest, true forms of government can be termed natural and their perverted forms unnatural.

Aristotle goes on to give these six forms of government names; Kingship, Aristocracy and Constitutional Government³⁸ are natural and their respective unnatural correlates are Tyranny, Oligarchy and Democracy. The characteristics of the six forms of government are discussed in some detail in *Politics* III so it might be useful to summarise Aristotle's comments. Aristotle ranks the natural forms of government in order of the number of those who exercise power; the fewer the better. "One man or a few may excel in excellence; but as the number increases it becomes more difficult for them to attain perfection in every kind of excellence..." (1279a40-1279b2). Thus, for Aristotle, kingship is the best form of government. However, a single person who possesses virtue to the degree necessary to govern a *polis* will be very rare, making it impractical as a constitutional form. So aristocracy, where power is invested in a relatively small group of highly virtuous people, is Aristotle's chosen form of government. Constitutional

³⁷ Aristotle's concern was principally that of the exercise of virtue in the context of the government of the *polis*, which, because of its size, involved all its citizens. Issues of proximity in respect of virtue and the governance of States, where not all can have a direct role, will be discussed in chapter 3.

³⁸ Constitutional government or *politeia* is often described as a polity or republic.

government is acceptable but inferior because those ruling are in possession of a limited range of virtues.

The unnatural forms of government reflect the interests of the ruling group. In a tyranny it is the interests of the ruler himself, in an oligarchy those of the rich and in a democracy those of the poor (*Politics* III.8).³⁹ It should be noted that Aristotle does not favour aristocracy because only a limited number of people will possess the necessary degree of virtue, although this may well be the case, but because the optimum arrangement for the acquisition of virtue requires a limit to the number of those involved. To understand why this might be so, it is necessary to examine the process of acquiring virtue that Aristotle advocates.

In the *Nicomachean Ethics* Aristotle makes the point that man is not naturally virtuous but that virtue has to be acquired through a process of habituation. His description of habituation involves a number of steps which might be described as a good upbringing, formal and informal instruction, observation of virtue in action and practice in being virtuous. MacIntyre describes these steps in terms of the stages in a person's life: "childhood to puberty, puberty to twenty-four, the life of the adult in full vigour, and the life of the experienced older adult." In the course of the first two stages the young person is being educated in what it is to be virtuous and developing his powers of rationality. In the third and fourth stages he is putting into practice what he has learned, initially in the role of a soldier and subsequently in various legislative and judicial roles. As his experience and practical wisdom increase he takes on increasingly responsible roles (MacIntyre, 1988:106).⁴⁰ These roles were allocated on the basis that those who had demonstrated the greatest worth were appointed to the most responsible positions. However, in practice, it was likely that there would be a greater number of worthy citizens than appropriate positions of responsibility. Consequently, positions tended to be filled by the drawing of lots, thus ensuring that citizens of equal worth at least had an equal probability of being awarded an appropriate position (Keyt, 1991:245).

We might look at this progression as a process of education, with the early stages being concerned mainly with learning and the later stages more to do with teaching, involving a gradual transition from the one to the other. MacIntyre explains that this was achieved

³⁹ Bradley(1991:44) points out that Aristotle ranks the perverted forms of government in reverse order to that of the true forms resulting in the irony that democracy, the modern constitutional ideal, is, for Aristotle, the best of a bad lot.

⁴⁰ MacIntyre points out that women were excluded from citizenship on the grounds that they were considered emotionally unsuitable for the role. My position is that this was an error and, as I do not consider it to be central to the issues under investigation, propose to ignore it. Consequently, my references to the male gender implicitly include the female.

through a hierarchical arrangement by which citizens took turns in the roles of ruler and ruled and within which they performed the functions of teacher and learner. The ruler exercises his superior powers of practical wisdom, in respect of a given task, in order to produce a plan which is then implemented by the ruled. In this way the ruler develops his wisdom and the ruled benefits from observing the ruler and putting in to practice what he has learned (MacIntyre, 1988:105-6).

There are two important principles involved in this description that it is worth pausing to consider. These are, the need for education and the hierarchical nature of the learning process. Nussbaum includes the provision of education in her capability of “Senses, imagination and thought” but does not specifically mention moral education. However, the capability of virtue will require the support of moral education, particularly for the young. Although this does appear to be a normative stipulation Nussbaum concedes the need for compulsory education of the young in the interests of creating “adult-capabilities” (Nussbaum, 1997:291). As moral education is required for virtue, which, as has been shown, in its metanormative sense contributes to the capability of happiness, it seems that we are justified in treating it as an essential feature of a eudaimonic State. Furthermore, as has also been observed, the hierarchical structure of learning involved in the ruler/ruled relationship also serves as the basis of government. It might, therefore, be considered as an instantiation of the relationship that Aristotle associated with the functioning of the family and which was considered above to be a consequence of escaping from a “pre-social condition”. Consequently, it seems that this also is an essential aspect of a eudaimonic State.

The nature of the ruler/ruled relationship will be considered in more detail below, in connection with the practice of slavery. For the present it will be considered from the perspective of distributive justice. In the ruler/ruled relationship the rewards accruing as a consequence of completing the task (the appointment to a position of responsibility) would be allocated, in accordance with the requirements of distributive justice, on the basis of contribution (the degree of the exercise of virtue). MacIntyre, however, stipulates two conditions for such a relationship. Firstly, those involved must be participating in a “common enterprise” which has objectives against which respective contributions can be measured. Secondly, there should be agreement about the criteria applied in the measurement process and how the relative values of the rewards are to be established (MacIntyre, 1988:106-7). In the case of the *polis*, the shared enterprise is the government of the State, the contribution is a measure of the exercise of virtue and the rewards are positions of responsibility.

Consequently, we might say that participants in the ruler/ruled relationship should have a shared understanding of their objectives and the benefits each might expect to receive if these objectives are achieved.

However, there is another point to consider here. Morrison interprets Aristotle's comments on the sovereignty both of the *polis* and the art of politics in such a way as to arrive at the following conclusion:

The polis is sovereign because the aims of all the associations contained within it are subordinate to its aim. The activities and purposes of these lesser organisations should be supported or suppressed, depending on the contribution this would make to the overall aims of the polis (Morrison, 2001:228-9).

In the terms defended above, the aim of the *polis*, as a eudaimonic State, is to provide each citizen with the ability to create, sufficiently populate and sustain a eudaimonic field. Moreover, doing so is natural in the Aristotelian sense. It was noted above that happiness, in the broad sense that embodies the idea of flourishing, is natural for human beings. That is, happiness is the state of a healthy human being. Consequently, any circumstances that impede our capability of happiness will tend to bring about conditions which are unhealthy for humans. Hence, we describe such circumstances as unnatural.⁴¹ Therefore, MacIntyre's two stipulations require supplementing with a third; that is, that the goals of common enterprises should be "natural".

At this point it would be useful to summarise what has been learned from this examination of the process of habituation. In very simple terms, it requires a State that provides formal and informal moral education and enables participation in common enterprises that embody the ruler/ruled relationship and have agreed "natural" goals and an agreed method of measuring and rewarding contribution. However, a clear understanding of why any of this requires a limitation on citizen numbers is still lacking in the account. In order to achieve this understanding, two demands of citizenship on a citizen's personal circumstances will be examined.

The first requirement is that of wealth. In *politics* IV.11 Aristotle defines three classes of citizen: the poor, the rich and the middle class (1295b1). However, the poor may be inclined to covetousness and the rich to arrogance, consequently Aristotle favours the middle class of

⁴¹ This is the sense in which natural entities or events, as well as those deemed unnatural, can be artefacts or the consequence of human actions.

citizen because they have the right attitude to wealth and possess “moderate and sufficient property” (1295b40). None the less, for a citizen who wishes to participate fully in the *polis*, sufficient may be a not insignificant amount. Mayhew explains that Aristotle believed that the virtue of generosity would be destroyed if a citizen did not possess property (Mayhew, 1993:813).⁴² Presumably for one’s generous acts to be noticed amongst a group of at least moderately wealthy citizens they would need to be of a certain magnitude requiring more than a little wealth.

Wealth was also needed in a more general sense. For example, as has been noted, younger citizens were expected to serve as soldiers and this meant being a hoplite, who were heavily armed soldiers comprising the majority of the typical Greek army and were involved almost exclusively in all land battles (Waterfield, 2007:6)⁴³. Finkleberg explains that it was expected of the citizen soldier that he would provide the substantial amount of arms and equipment needed to serve as a hoplite, at his own expense, leading her to the conclusion that, “...only someone who could afford the hoplite equipment was entitled to defend the community on the battlefield, and only someone who was entitled to defend the community on the battlefield could be politically active in the city state” (Finkelberg, 2002:42).

So the citizen who wished to be virtuous and participate fully in the political life of the *polis* required a certain amount of wealth. However, the means of acquiring that wealth could potentially conflict with the second demand made of the citizen; that of having sufficient leisure time. Irwin points out that “Leisure implies the freedom from constraint that is important for the exercise of the virtues, as Aristotle conceives them” (Irwin, 1990:412,411). The constraint is that which is in relation to the nature of virtue that requires a man to exercise choice in accordance with practical reason (NE II.6 1106b36-1107a2). Man needs to reflect carefully on the choices available to him in order to choose well and he is unable to do this if he is constrained by the day to day demands of making a living. Irwin (1990:412) explains that it is for this reason that Aristotle believes that manual workers should not be citizens as they have insufficient leisure time to meet the demands of the role.⁴⁴ This belief explains to a large extent why Aristotle requires a limit to the number of citizens in a *polis*, only those who are

⁴² Mayhew was describing Aristotle’s argument against Plato’s recommendation of communally owned property but the argument demonstrates the virtuous citizen’s need for wealth.

⁴³ Waterfield provides an interesting description of hoplite warfare which, amongst other things, shows the extreme nature of the demands that the virtue of courage made on the citizens of the *polis*.

⁴⁴ In NE X Aristotle discusses contemplation as being the greatest of man’s pleasures which also requires significant leisure time.

free from the time consuming demands of wealth generation can qualify.⁴⁵ This raises the question of how a citizen acquires the wealth he requires and a significant part of the answer to that question involves slavery.

Williams (1993) points out that the use of slaves in Athens at Aristotle's time was considered to be a necessary requirement for the functioning of the State. That is, "...no way of life was accessible to them that preserved what was worthwhile to them and did without slavery". Today slavery is, rightly, utterly condemned and has no place in any type of legitimate State. However, as it was a component of Aristotle's ideal *polis* an attempt should be made to understand its role. Firstly, consider the basic facts of slavery as Aristotle knew it. Williams tells us that it took the form of "chattel slavery" that is, slaves were the property of their masters, they were mostly barbarians (not Greek speakers) and were captured in warfare or by "a kind of hunting" specifically for this purpose. In summary "...a paradigm of bad luck throughout the ancient world was being taken into slavery by military conquest" (Williams, 1993:105,106,107,111,112). Although slavery as an institution was generally accepted as the way things were, some viewed it as being wrong. As Aristotle observes:

Others affirm that the rule of a master over slaves is contrary to nature, and that the distinction between slave and freeman exists by convention only, and not by nature; and being an interference with nature is therefore unjust (1253b20-23).

This gives Aristotle a problem in that he requires slavery "for the sake of" the functioning of the *polis* yet there is an argument that it is unnatural, that is to say that it obstructs the ultimate goal of the *polis*. As Smith suggests, Aristotle recognises that he cannot simply defend slavery on the grounds of pragmatism but that he needs a theoretical defence. It may be in this context that Aristotle offered the concept of "natural slavery" (Smith, 1983:121).

In essence natural slavery is a description of a master-slave relationship which is of mutual benefit, involving a slave who lacks the mental capacity to reason for himself and so relies on the master to reason for him in return for which he provides manual labour. Aristotle describes the characteristics of such a person as lacking in "deliberation and foresight" and having an "aptitude for bodily labour" (Smith, 1983:110). However, such an arrangement is unlikely to be a common occurrence and in reality Aristotle is probably describing a concept concerning the role of the family that he first introduced as part of his argument for the naturalness of the State at the beginning of the *Politics*. However, Aristotle did not use the

⁴⁵ In chapter 3 I will consider the difficulties that the need to make a living causes for citizens of the modern State, particularly in terms of participating in the concept of a "Big Society".

terms master and slave but “the mastering by nature” and “the servile by nature” (Ambler, 1987). It may be that because of his failure to differentiate the nature of servility from the institution of slavery that Aristotle’s argument runs into difficulties. Natural slavery may be natural in the sense that it is “for the sake of” the *polis* and it may be natural because it is for the mutual benefit of the parties involved but it is unnatural because the natural slave is not free to choose his own actions (Ambler, 1987:391-2,406). Thus, Aristotle’s account of natural slavery seems incoherent. It contains an internal contradiction; its objectives are natural but its methods are unnatural. The incoherence can be eliminated however. Although slavery is unnatural it is natural to live in a community with an appropriate division of labour. Division of labour is the necessary component of the *polis*, slavery is an unnatural and contingent instantiation of it. Other means of achieving the division of labour are possible in which servility and slavery are not necessarily identical (Williams, 1993:111,113).

The basis of the division of labour can be called the “planner/doer” relationship, which can be considered to be a generic term that includes both the ruler/ruled and teacher/learner relationships referred to earlier. A close examination of this relationship suggests that it has four possible forms. The relationship involves a planner whose responsibility it is to employ deliberation and forethought in order to formulate objectives, say to plough a particular field, and it is the responsibility of the doer to use his skills, say aptitude for bodily labour, to achieve the objective, that is, do the ploughing. There are two aspects to the relationship: that which concerns the formulation of objectives and that which concerns the relationship in which the doer stands to the planner; furthermore, there are natural and unnatural alternatives for each.

In respect of the formulation of objectives, the natural form exists where the achievement of objectives results in a benefit to both parties; this will be described as “symbiotic”. The unnatural alternative occurs where the planner formulates objectives which confer no benefit on the doer, whose role is merely to achieve the planner’s own ends; this could be called “instrumental”.⁴⁶ In terms of the relationship between the two parties, the natural version entails the doer freely choosing to take part, consequently this relationship will be called “voluntary”. The unnatural alternative results from the doer being forced against his will to participate, hence is “coercive”. These four aspects can be combined in pairs to create four

⁴⁶ It is not necessarily the objective itself which confers benefit on the parties involved but rather the consequences of it being achieved. For example, in a symbiotic relationship, achieving a particular objective, say the ploughing of a field, may result in the planner being appointed as, say, farm manager whilst the doer receives a sum of money. Both obtain the benefits they hope for but these do not consist in having a ploughed field.

different types of planner/doer relationship which can be designated as; Brutal, Paternalistic, Exploitive and Natural as follows:

Brutal: A combination of the coercive and the instrumental, the two unnatural aspects. This is the type of relationship which is involved in conventional slavery.

Paternalistic: The coercive combined with the symbiotic, natural with unnatural. This is the basis of Aristotle's conception of natural slavery.

Exploitive: The voluntary together with the instrumental, again natural with unnatural. This occurs where the doer willingly enters the relationship on the basis of a mistaken belief that doing so will be to his benefit. That is, there is not a shared understanding of the benefits that will accrue to each party.

Natural: The combination of the two natural aspects the voluntary and the symbiotic. In this relationship the doer believes that contributing will be beneficial to him. It is the responsibility of the planner to formulate objectives which, if achieved, will benefit the doer in accordance with his contribution.

If we reject any relationship within which there is an unnatural component, in accordance with Aristotelian principles, we are left with only the natural type of planner/doer relationship. This is the type of relationship that Aristotle requires for his ideal *polis* but which was arguably not available to him in the absence of a viable alternative to slavery. Such a planner/doer relationship might be considered to embody the requirement for citizens to own property, acquire wealth and have sufficient leisure time are provided for by the final two central capabilities in respect of "Being able to laugh, play and enjoy recreational activities.", "...being able to hold property..." and "...having the right to seek employment on an equal basis with others..."⁴⁷ (Nussbaum, 2011:34).

At this point the examination of Aristotle's specification for the ideal *polis* is completed and its essential qualities have been identified. It is now possible to describe the basic specification of a eudaimonic State. It will have creating the capability of happiness for each and every citizen as its ultimate goal and as such will seek to create a sufficient level of the ten Central Capabilities. However, most importantly, it will also seek to create the opportunity for citizens to acquire and exercise full virtue. Consequently a eudaimonic State must provide each of its citizens with the ability to make appropriate choices supported by moral education, the ability

⁴⁷ The seventh of Nussbaum's central capabilities involves our relationship with animals and plants which our approach has not explicitly addressed.

to participate in natural planner/doer relationships (in either capacity) and the ability to experience the consequences of their actions.

In describing such a eudaimonic State it might be said that, *inter alia*, it will provide citizens with the opportunity to own property and to acquire sufficient wealth to satisfy their needs, whilst permitting them sufficient leisure time for their various purposes. Formal education in the ways of virtue will be provided for younger citizens and the educational and developmental needs of the more experienced citizen will be enabled by the existence of hierarchical arrangements based on the “natural” planner/doer relationship. Finally, it will possess social structures such that all citizens have the opportunity to participate in shared enterprises that contribute in some degree to its goals and which satisfy the demands of proximity. The question remains as to whether such a State can exist and, if it can, how and to what extent it can be adapted to the requirements of a modern State. This will be the subject of the next chapter.

Chapter 3

The Eudaimonic State

Alasdair MacIntyre claims that the modern State is too large, diverse and compartmentalised to be able to create the conditions necessary for the achievement of happiness amongst its citizens. That is, in the terms which I have defended in the previous chapter, to be a eudaimonic State. In this chapter I will attempt to refute that claim. I begin by considering the issues raised by the size and cultural differences of the modern State compared with the *polis* on which the previous chapter's analysis was based. I will claim that, in principle, it is possible for a modern State to possess the characteristics of a eudaimonic State and suggest how such a State might be structured and what would be expected of its citizens. I will examine the major obstacles to achieving this and in doing so I will offer a response to MacIntyre's argument that such a project is not possible in practice. I will go on to attempt a reconciliation of some of the conflicting opinions of liberals and communitarians concerning the nature of citizenship and the political functioning of the State that will be required if a eudaimonic State is to function effectively. I will conclude by attempting to sketch an outline interpretation of a modern eudaimonic State and identify two of the major threats to its realisation.

In the previous chapter it was observed that there are essentially two sets of criteria that must be satisfied if the State is to achieve its goal of creating the capability for each of its citizens of possessing a sufficiently populated eudaimonic field. These are: firstly, the capacity to satisfy the requirements of at least the threshold levels of Nussbaum's ten Central Capabilities. This involves, *inter alia*, providing the means to satisfy persons' material needs, including the opportunity to acquire sufficient wealth whilst retaining sufficient leisure time. Secondly, the State must create the conditions necessary for the acquisition of virtue. The two most important components of this are moral education by participation in planner/doer relationships and proximity so as to understand the character and circumstances of others. It was also noted that it was the nature of these requirements that lead Aristotle to stipulate a limit to the size of the *polis*. The first step, therefore, will be to establish the possibility of satisfying these demands within the context of the much larger modern State.

Dealing firstly with the State's ability to satisfy man's material needs; as noted in the previous chapter, Aristotle's concerns were principally with self-sufficiency in the production of food and other necessary goods, transporting these goods to the centre of population, and defending the State against military attack or illegal immigration. Aguilar describes how modern technology is capable of enabling the modern State to satisfy Aristotle's requirements.

...agricultural equipment alone allows for greater productivity with the same amount of land. Moreover, new irrigation methods, ones that are continually refined, modern fertilization techniques and even bioengineering also make greater productivity a normal State of agricultural affairs, even in arid climates with a low level of annual rainfall or other adverse conditions. And modern transportation allows for food grown in one area of a large nation to be moved to the population center, and makes it easier to support a large population than was possible in Aristotle's time (Aguilar, 2007:114).

Similarly, as Aguilar points out, modern communications technology, computing, armaments, transportation and surveillance capability serve to satisfy Aristotle's requirements regarding defence from military attack and illegal immigration, leading her to make the claim that "...I believe that even Aristotle would agree, were he to witness modern technology, that self-sufficiency is not as easily undermined today as it would have been in his time" (2007:113). Consequently, it seems that the size of the modern State does not represent an obstacle to its self-sufficiency in terms of the necessary goods it must make available for its citizens.⁴⁸

As observed in the previous chapter, in ancient Greece the acquisition of wealth together with the provision of leisure time was enabled through the institution of slavery. However, this practice, as was noted, caused Aristotle some difficulty in respect of his claim for the naturalness of the State. It was suggested that this difficulty could be avoided if another form of the division of labour is employed. Such a division of labour must, as was described, involve the 'natural' form of the planner/doer relationship. In the modern State we have a division of labour in which the planner/doer relationship exists in the form of the relationship between an employer and an employee. Such a relationship can enable us to create the wealth we require without involving the coercion of slavery. We should be aware, however, that the employer/employee relationship is not necessarily a natural one, it can be exploitive or even

⁴⁸ With the availability of technology the requirement for strict self-sufficiency exists only at a global level, that is, obtaining goods from sources external to the State does not necessarily represent a threat. Individual States that fail to be self-sufficient probably do so more for political reasons rather than those of size.

brutal. Consequently, we have to take care to ensure that the employment we offer does embody the natural planner-doer relationship.⁴⁹

The principle of employment thus enables modern States to provide their citizens with the ability to acquire the wealth they require and thus satisfy one of the major requirements of a eudaimonic State. However, because both employers and employees are citizens of the modern State, it is not clear that such an arrangement can free them from the constraints on their leisure time in the way that Aristotle requires and which slavery did for citizens of the *polis*. The answer lies in the difference between the demands placed on citizens of the *polis* and those of a modern State. In the *polis* the citizen's principal concern was to participate fully in the government of the State, which was a separate activity to that of acquiring the wealth to do so. This required the citizen to be free of the constraints of the latter in order to be able to achieve the former. By contrast, in a modern State, one of the major contributions that a citizen can make to the functioning of the State is to participate in the workplace. As this is also the source of the wealth he requires to satisfy his needs generally it can be seen that, as a consequence, leisure time satisfies a different requirement. Looked at from the perspective of the capabilities which populate the citizen's eudaimonic field, leisure time is necessary in order to relax and take part in recreational activities and to provide access to other capabilities such as political participation and enjoying friendships (Nussbaum, 2011:36). However, as Nussbaum suggests, Aristotle's requirements for leisure time appear excessive in the context of access to such capabilities, with the possible exception of education (1987:35). Consequently, with safeguards such as compulsory education for children, limits to the length of the working day or week, and provision for periods of annual holiday, it should be possible for modern States to provide their citizens with the opportunity for sufficient leisure time. Although it will be seen below that in practice this may not be the case.

By contrast with the above, the requirement for a eudaimonic State to satisfy the demands of proximity is particularly onerous and challenging. Not only does proximity involve our relationship to the individuals with whom we are in direct and frequent contact, as would have been the case in the *polis*, it requires us to consider those who are situated at a considerable distance and whose lives we influence in some way or who have, or should have, an influence on us. In particular, as discussed in the previous chapter, we require proximity in order to gain an understanding of the character and actions of those who are involved in government.

⁴⁹ This has very important implications for the conduct of business and will be discussed in subsequent chapters.

Specifically, we need to be able to assess their characters and abilities so that we might effectively participate in the democratic process. In addition we need to understand the impact our actions have on others and be motivated to act in accordance with virtue towards them and geographical separation represents a significant obstacle to achieving this. As Wilson observes, “For Americans, as for peoples everywhere, morality governs our actions toward others in much the same way that gravity governs the motions of the planets: its strength is in inverse proportion to the distance between them” (Wilson, 1997:191).

It is possible that technology, such as television, mobile telephony and the internet can assist in overcoming this problem. For example, televised fund raising events, such as Children in Need in the UK, use these technologies to bring the plight of underprivileged people to the attention of the general public and enable them to exercise the virtue of generosity. The potential of technology to provide conditions that meet the requirements of proximity can also be seen in relation to our understanding of the character of those in government or who influence, or are influenced by, our actions. For example, the televising of parliament in the United Kingdom allows us to witness government in action and social media, such as Twitter and Facebook, give us access to the thinking of politicians as well as to that of people in general. Strikingly, social media seem to have the power to encourage a degree of frankness that goes beyond that found in conventional conversation. This can help to reveal beliefs, attitudes and character traits that might otherwise have gone unnoticed and may serve to contribute to pressure for political change.⁵⁰

It seems, therefore, that modern communications technology can go at least some of the way to enabling conditions of participation and proximity. However, MacIntyre argues that in order for such conditions to exist, sufficient for the acquisition and exercise of virtue, a particular form of community is required. MacIntyre's claims will be considered shortly but for the present it should be noted that modern technology combined with an appropriate division of labour provides the potential to satisfy the principal requirements of a eudaimonic State. Consequently, it would appear that there are no fundamentally insurmountable physical obstacles to achieving such a goal in the context of a modern State. I will therefore consider the practical implications of creating a eudaimonic State.

⁵⁰ In this respect it may be the case that, ironically, the lack of physical proximity involved in internet use more effectively meets the objectives of proximity than face to face conversation, although it is necessary to be aware that comments in social media, particularly those of senior politicians, may be stage managed.

In order to obtain a clear idea of these implications it is proposed to adopt the perspective of a legislator charged with the responsibility of providing a modern capitalist democracy, such as that of the United Kingdom, with what Aristotle would call constitutional government, such that all citizens have an opportunity to participate in the functioning of the State. Clearly this objective is a utopian ideal and has no prospect of being realised, just as was the case with Aristotle's *polis*. As Aguilar points out, "His ideal State is theoretical, since it was not implemented in his time nor has it been established since" (Aguilar, 2007:117). However, it is my hope that the legislator's task will serve to identify some potential solutions to apparently intractable problems.

The first thing that the legislator might notice is that the characteristics of a eudaimonic State, which were discussed in the previous chapter, can be organised into three elements. Firstly, he has an objective, the capability of happiness. That is, he is required to provide each and every citizen with the opportunity to create, sufficiently populate and maintain a eudaimonic field. Secondly, the State is to be structured in accordance with the demands of participation and proximity. Finally, the State has two functional components which might be described as economic and educational. The economic component requires that the State provide the opportunity for the citizen to satisfy all his reasonable needs, the opportunity to acquire the wealth necessary to satisfy those needs and the opportunity to secure leisure time sufficient for him to function effectively as a citizen. The educational requirements are for formal education for the young, leading to opportunities to develop skills through observation and practice in the context of the planner/doer relationship.

Participation is an important component in terms of its contribution to happiness as persons must participate in shared activities in order to acquire and develop the virtues and to experience the pleasure associated with their exercise. Furthermore, their exercise of virtue through participation in the functioning of the State also serves to contribute to its well functioning and thereby to the capability of happiness for its citizens generally. In the *polis* participation in the functioning of the State involved participation in government. However, in the modern State, given its size and complexity, the opportunity for direct involvement in government will be limited. For the majority of citizens participation will be in respect of other joint endeavours such as families, clubs, societies, voluntary organisations and the work place. These various forms of association will tend to contribute to individual happiness and the well functioning of the State if they meet the criteria that have been previously determined. That is, they should embody the natural planner/doer relationship, have agreed natural goals and an

agreed method of measuring and rewarding contribution.⁵¹ In addition these forms of association should satisfy the demands of proximity.

Having mapped out the general requirements of the State and its citizens the legislator needs to review the “state of the nation” which is to be his starting point. The first thing that may come to his attention is that the democratic process is not functioning as it should. In fact MacIntyre claims that modern Western democracies are dominated by political and financial elites, the effect of which is to limit the options open to voters to those offered by the elites thus denying them choices which may be of fundamental benefit to them in terms of the acquisition of virtue. This state of affairs leads MacIntyre to make the claim that “Politically the societies of advanced Western modernity are oligarchies disguised as liberal democracies” (MacIntyre, 1998:237). The extent to which this situation might be considered unsatisfactory is the extent to which the various activities involved fail to meet the required criteria for participation. That is, citizens must be free to pursue agreed natural goals for which there are generally accepted methods of measuring and rewarding contribution.

However, this is a state of affairs which MacIntyre argues is simply unachievable. MacIntyre's position, which might be described as communitarian, is that, in order to acquire and exercise virtue, individuals must participate in a society in which there is a shared conception of the good. MacIntyre believes that social groups are characterised by traditions and it is within these traditions that virtue is located (Horton and Mendus, 1994). However MacIntyre argues that different traditions embody different conceptions of the good which in turn lead to different conceptions of virtue. Consequently, multicultural societies, such as the modern State, can be considered to create problems for the acquisition of virtue. According to MacIntyre, a multicultural State cannot embody a conception of virtue that can apply to all cultural groups or all individual citizens. That is, there are no rules of morality independent of a conception of the good and unless all citizens share a conception of the good there can be no meaningful conception of virtue (Horton and Mendus, 1994). It is worth noting that it does not follow that all conceptions of the good and of virtue are equally valid (see MacIntyre, *Three Rival Versions*) only that moral meaning cannot float free of a teleological understanding of the good life.

⁵¹ It might be suggested that activities such as sport or crafts do not meet these criteria. However, a football team might have a planner in the form of a manager or a captain with the other players taking on the role of doers. They may also have a shared goal of, say, winning a championship. This goal would be considered natural if it contributed to the capability of happiness. The same could be said of any organised group activity.

MacIntyre suggests that the modern State is too fragmented to be the sort of entity that can support such a common conception of the good, describing it as, “a large, complex and often ramshackle set of interlocking institutions, combining none too coherently the ethos of a public utility company with inflated claims to embody ideals of liberty and justice” (MacIntyre, 1998:236). MacIntyre claims that, as a consequence, our conception of morality has become so fragmented such that “...we have – very largely, if not entirely – lost our comprehension, both theoretical and practical, of morality” (MacIntyre, 2007:2). MacIntyre argues that moral concepts can only be understood in the context of social life and, in part, constitute such life. That is, virtue is linked to the nature of societies (Horton and Mendus, 1994:2-12). However, MacIntyre argues that in the modern world we are isolated. He claims that within the modern State there are small academic groupings, representing a variety of disciplines, in which rational discussions on the nature of the good take place but there is no overall arena in which competing conceptions can be debated and from which conclusions arise that might inform the actions of the State, “...such that no place is left any longer for the politics of the common good” (MacIntyre, 1998:239). Furthermore, it is not acceptable for a multicultural State to attempt to politicise a conception of the good. As Bielskis claims, “An attempt to unite the whole society of the modern nation-state through such a single meta-narrative or ideology would lead to some form of totalitarianism” (Bielskis, 2008:87). In essence, MacIntyre is arguing that virtue is a feature of a society that has a shared conception of the good and the individualistic, pluralistic and multicultural nature of modern States renders them unsuitable as a context in which virtue might be acquired and exercised.

MacIntyre’s solution is that citizens form associations with like-minded people who share common goals, common conceptions of the good and have a shared culture. He claims that an association of this sort, that organises itself in order to pursue the common good, is essentially political and he equates it to an Aristotelian *polis*. He recommends that these *neo-poleis* should be, “as self-sufficient as they need to be to protect themselves from the destructive incursions of the State and the wider market economy” (MacIntyre, 1998:241,248). Within these forms of association members are able to satisfy the requirements of participation and proximity, exercise practical reason and generally flourish through the acquisition of virtue. MacIntyre acknowledges that communities, of the sort described above, require the support of a State in terms of satisfying their material needs. However, for MacIntyre, the State threatens and ultimately destroys those communities. He gives as an example communities based on fishing in New England and coal mining in Wales. The consequence of this threat is

that likeminded citizens have had to fall back to smaller social groupings such as “...workplaces, schools, parishes, sports clubs, trade union branches, adult education classes, and the like” (MacIntyre, 1999:143,134). One can perhaps visualise here a process the *telos* of which is some form of monastic community.

MacIntyre lays the blame for this situation at the feet of liberal ideology. He claims that within the whole of moral philosophy there is no successful defence of the liberal individualism which he believes responsible for the process described above (Horton and Mendus, 1994). MacIntyre's criticism is that liberalism is – or claims to be – neutral with respect to the nature of the good. Liberals, such as John Rawls, argue that the State should respect the right of each citizen to pursue whatever conception of the good that they wish. Like MacIntyre, Rawls accepts that individuals need the support of the State in terms of the provision of some goods which he calls “Primary Goods”. However, in order to provide the citizen with the maximum control over her choice of goods, the Primary Goods should be limited to only those that an individual will require in order to possess the freedom to pursue her own conception of the good, such as: “...rights, liberties, and opportunities, and income and wealth....health and vigor, intelligence and imagination” (Rawls, 1999:54). This liberal account of Primary Goods is referred to as a “thin” conception of the good. With the exception of providing those primary goods “...that every rational man is presumed to want” (Rawls, 1999:54), liberals, believe that the State should not attempt to impose any conception of the good on its citizens.

In essence, the respective positions of MacIntyre and Rawls can be described in terms of the politicisation of the good (Kymlicka, 1989). MacIntyre argues that, in order to promote virtue, the State must politicise a commonly held conception of the good but that, in the context of the modern State at least, this is not possible. Whereas, Rawls argues that the State should not attempt to politicise any conception of the good, other than a thin conception of the good, leaving the individual free to choose his own. In accordance with the Aristotelian approach which I have chosen to take I will attempt to resolve this conflict whilst preserving as many as possible of the arguments expressed. My goal, therefore, is to establish the basis of a State, the eudaimonic State, in which the acquisition and exercise of virtue is possible but within which citizens are free to pursue whatever conception of the good they wish.

The first thing to note is that, although Rawls's position might be described as individualistic in the sense that it supports the individual's choice of goals, it is not individualistic in the sense that the individual is required to pursue those goals in isolation. Implicit in Rawls's conception of individualism is the understanding that humans are essentially social and that we are likely

to pursue our various goals in the company of other like-minded people. That is, "...one of the things that people can do, and indeed are expected to do, with their resources and liberties is to join or create meaningful associations and attachments, including spiritual and emotional ones" (Kymlicka, 1989:888). In Chapter 1 I defended the idea that the virtues are Aristotelian necessities relating to the Aristotelian categorical "the human is social". Consequently, if individuals are to pursue their various goals in a social context, they will need to acquire and exercise virtue if they are to be successful. These various associations might be considered to be consistent with the various social groupings, described above, which MacIntyre claims are the last resort of people seeking to acquire virtue. Consequently, on this understanding, the pursuit of individual conceptions of the good can bring about conditions in which the acquisition and exercise of virtue is possible. The difference between MacIntyre, representing the communitarian position, and Rawls, speaking as a liberal, can be described as follows: Whereas Rawls believes that such associations will tend to come about without the need for State intervention and such intervention may be damaging to them, MacIntyre argues that they are an unsatisfactory compromise, a last ditch stand against a drift towards isolationism, brought about by a lack of (the right kind of) State intervention (Kymlicka, 1989:904). How then might the eudaimonic State reconcile these conflicting positions?

Firstly, it should be noted that the eudaimonic State does politicise a common understanding of the good which MacIntyre believes to be essential. The good in question is happiness, understood in the Aristotelian sense as the possession of a sufficiently populated eudaimonic field. The eudaimonic field is created by the acquisition and exercise of virtue, which, as was argued in Chapter 1, is the only rational means of achieving happiness, and populated by the threshold level of ten Central Capabilities. However, it is not happiness *per se* that is politicised in a eudaimonic State but the capability of happiness. That is, happiness understood as involving virtue in a metanormative sense rather than the normative sense of the Aristotelian conception of happiness. The eudaimonic State does not intervene to require that its citizens acquire and exercise virtue it merely provides them with the opportunity to do so through opportunities for participation and proximity. Therefore, as virtue, in the normative sense, is not politicised in a eudaimonic State this should satisfy liberal demands that the State should not intervene in a citizen's pursuit of her specific conception of the good.

Secondly, in order to provide opportunities for the participation and proximity required for the acquisition of virtue, the eudaimonic State supports various forms of social groupings,

involving the potential for a plurality of cultures and conceptions of the good.⁵² These forms of association can be conceived of as being those forms of association, such as “sports clubs, trade union branches and adult education classes”, in which MacIntyre believes that a meaningful conception of virtue can be acquired and which will tend to come about in a liberal State as a consequence of like-minded individuals pursuing their own conception of the good.

Finally, in providing each citizen with the threshold levels of the ten Central Capabilities the eudaimonic State could be conceived of as providing the essential support that MacIntyre accepts the social groupings he advocates will require, without entailing the sort of State incursion which he fears. The threshold level of these capabilities might also be considered to equate to Rawls's conception of Primary Goods. However, liberals might argue that the ten Central Capabilities are insufficiently thin and that they, and the exercise of virtue required by the Aristotelian conception of happiness, will tend to violate the liberal demand for neutrality toward the nature of the good. By way of response Nussbaum argues that governments generally have to make decisions about what resources are made available to citizens, explaining that “No modern State simply puts income and wealth into the citizens’ pockets; instead, programs are designed to support certain areas of life – health, education, defense, and so forth. Any other approach would produce confusion” (Nussbaum, 1990:212). Furthermore, as has been seen, Nussbaum’s ten central capabilities are such that the absence of any one of them will render happiness difficult to achieve and their provision is therefore compatible with the liberal demand of the right to the capability of happiness.

As regards limiting choice to that which is in accordance with virtue; it could be argued that it is necessary to ensure that the worst off benefit from any inequality that is created and that in practice it is consistent with at least some aspects of liberal theory. In addition, it should be noted that although the universal possession of virtue is the optimum position for the legislator he may not attempt to impose it. In accordance with the requirements of the natural planner/doer relationship he must create a society where it is beneficial for all to participate, in accordance with virtue, and then demonstrate that it is in their interest to do so. Notwithstanding this, the liberal may argue that persuading a person to choose in accordance with virtue just is to limit their freedom of choice and is consequently unacceptable. However, encouraging citizens to choose in accordance with virtue does not necessarily entail their meeting controversial normative demands. A State which encourages citizens to acquire and

⁵² The manner in which these social groupings might be supported in a eudaimonic State is considered later in this chapter.

exercise virtue might simply be concerned with helping them to pursue their individual and various goals in a manner which will contribute to their happiness. Thus, the capability of happiness, involving as it does the acquisition and exercise of virtue together with the ten Central Capabilities, can be equated with a thin conception of the good. This is because, although it is thicker than Rawls's conception it embodies only those things "that every rational man is presumed to want". Consequently, the eudaimonic State's objective of providing each of its citizens with the capability of happiness can be considered to be compatible with liberalism. How, then, can citizenship be conceived of, in a eudaimonic State, in a manner that might satisfy the liberal demand for freedom of choice whilst enabling the communitarian requirement for participation?

Kymlicka and Norman describe citizenship as being concerned with two contrasting principles, individual entitlement and attachment to a community (Kymlicka and Norman, 1994:352). Generally speaking liberals uphold the former position and consider citizenship to be a matter of rights, whereas communitarians see it as involving a duty to the State. Kalu describes these two forms of citizenship as "normative" and "instrumental", where normative citizenship originates from the belief that birth or naturalisation in a particular State grants unalienable rights, whereas instrumental citizenship "...is driven by a person's socioeconomic and political status" (Kalu, 2003:424). Kalu cites Rawls, amongst others, as influencing the arguments for normative citizenship whereas he claims that it is largely Aristotle's philosophy that underpins the principles of instrumental citizenship. Kalu further claims that it is the principles of instrumental citizenship that create the political and economic elites, that MacIntyre deprecates, suggesting that "Wealth, education, and other perquisites generally associated with upward mobility engender an individual's or group's access to economic and political opportunities that are not generally available to all" (2003:424). Kalu argues that these two forms of citizenship entail different classes of obligation which he labels, "normative" and "political". Normative obligations involve exercising one's will in the choice between right and wrong, whereas political obligations are politically imposed demands "...such as voting, paying taxes, going to work, driving on the right side of the road, obeying traffic conventions, joining the army, and being a good person for the sake of others" (2003:424).⁵³ He concludes that an appropriate conception of citizenship is one in which there is a balance between these two

⁵³ There is potential for confusion here which we should be careful to avoid. The State whose goal is the meta-normative principle of creating the opportunity for the acquisition and exercise of virtue involves what Kalu calls normative citizenship which entails normative obligations. By contrast, the State that is governed in accordance with the normative conception of virtue involves, what are in Kalu's terms, instrumental citizenship and political obligations.

forms of obligation, suggesting that “Citizenship as dual obligation should be situated at the intersection where self-interest touches but does not overtake the public interest” (2003:424).

On examination, Kalu’s conception of instrumental citizenship, far from being Aristotelian, could be considered to be a distortion of Aristotle’s philosophy. The arguments Aristotle deploys in the *Nicomachean Ethics* entail precisely the “dual obligation” outcome that Kalu requires. This can be demonstrated if citizenship is considered as the exercise of virtue. The Aristotelian conception of the good for man is living a life of virtue by participating in government, which is identical with that which is good for the State, on this basis there can be no conflict between self and public interest. This can be illustrated if citizenship, expressed as participation in political associations, is considered as a virtue in itself.⁵⁴ If so it would lie in a mean between deficiency and excess, represented by what might be described as “non-participation” and “elitism” respectively. The virtue of participation, which is relative to the circumstances of the individual, would involve participation in the right kind of associations, to the right extent, in the right manner and for the right reasons. Where by “right” I mean “natural”, that is, in a manner and to an extent that contributes to the capability of happiness, as it has been defended, and which is also the goal of the eudaimonic State. Stated in Kalu’s terms it represents the precise point where self-interest and the public interest meet.

However, although it is desirable that citizens should participate in associations embodying the planner/doer relationship, both in order to acquire virtue and to promote the well functioning of the State, Kalu (2003:425) argues that the citizen should have the right not to participate at all, without losing any of the other rights of citizenship. That is to say that the State must accommodate the requirement for participation associated with communitarianism whilst protecting the right of the citizen to choose not to participate, as demanded by the liberal. Furthermore, this should be achieved without loss of the benefits of citizenship, which, in the terms that I have defended, are the right to the capability of creating and maintaining a sufficiently populated eudaimonic field.

A means of achieving this can be found by reference to Aristotle’s famous example, illustrating the “for the sake of” relationship, involving bridle making, horse riding and military strategy in the *Nicomachean Ethics* I.1. We might consider the bridle maker to be participating in an enterprise that results in the production of bridles, to this extent he is in a planner/doer

⁵⁴ The political associations I have in mind are those that organise themselves to pursue a common goal. This includes the Aristotelian idea of participation in government but encompasses all forms of association concerned with the provision of some good or goods for its members. To this extent something like a photographic society could be considered as a political association.

relationship with other members of the enterprise and as such is subject to the demands of just distributions; this might be called “active participation”.⁵⁵ However, in respect of his supplying bridles to the horse rider, there is a sense in which he could be considered as participating in the enterprise of horse riding; we might call this “passive participation”. Passive participation differs from active participation in that it is characterised by one party supplying something that the other party requires and is thus subject to the demands of justice in exchange.

Applying these principles to the question of citizenship it could be argued that the non-participant is in fact a passive participant in society in that she is supplying the potential for participation which the legislator needs to actualise. Her contribution is an implied undertaking to observe the laws formulated by the legislator which, *inter alia*, serve to protect the right of each citizen to the capability of happiness. In return, by way of a just exchange, she is granted certain rights, which might consist in the threshold level of Nussbaum’s central capabilities, together with the opportunity for the acquisition and exercise of virtue. However, in order to promote the well functioning of the State, the legislator requires passive citizens to actively participate and to do so in accordance with virtue, as Kymlicka and Norman explain:

...the health and stability of a modern democracy depends, not only on the justice of its ‘basic structure’ but also on the qualities and attitudes of its citizens: for example their sense of identity and how they view potentially competing forms of national, regional, ethnic or religious identities; their ability to tolerate and work together with others who are different from themselves; their desire to participate in the political process in order to promote the public good and hold political authorities accountable; their willingness to show self-restraint and exercise personal responsibility in their economic demands and in personal choices which affect their health and the environment. Without citizens who possess these qualities, democracies become difficult to govern, even unstable (Kymlicka and Norman, 1994:353).

As has been suggested, it could be argued that the passive citizen is a potential resource that the legislator can utilise by persuading her to participate actively in accordance with virtue. As a passive citizen she receives rights in exchange for her acceptance of the legal constraints that the State imposes and as an active citizen she has the opportunity to create a eudaimonic field

⁵⁵ It may be that the bridle maker is the only person engaged in the enterprise in which case he will combine the functions of planner and doer.

and obtain full enjoyment of those rights. In addition she has the opportunity to further populate her eudaimonic field with additional goods accruing from her participation and, therefore, in accordance with distributive justice. In this way a eudaimonic State can incorporate the liberal demand for the right of non-participation whilst satisfying communitarian demands by promoting active participation in virtuous citizenship.

However, it should be noted that the legislator should not be tempted to try and force participation. For example, attempting to encourage participation in the workplace by reducing unemployment benefit to below the level of subsistence is unacceptable as it is at best paternalistic and at worst brutal. It is the legislator's responsibility to create the means through which participation would be genuinely beneficial to the citizen and which he can choose voluntarily. In this sense non-participation would not be a pejorative term but more a reflection of the State's failure to provide, or at least effectively demonstrate, the just benefits of participation. Of course the same principle applies to the elites at the other extreme of participation; they also must be able to see the benefits of virtuous citizenship.⁵⁶ In this sense, in a eudaimonic State, based as it is on the meta-normative conception of virtue, the excesses of non-participation and elitism would not be termed vices, as they might be in Aristotle's *polis*, based as it is on the normative conception of virtue. Their existence in the eudaimonic State merely reflects a State that is not functioning as well as it might.

In summary, it might be said that the principle of citizenship as a virtue, which entails participation at the mean where there is the correct balance between liberal rights and communitarian duties, is the appropriate one for a modern democracy. As Gutmann suggests "The potential of communitarianism lies, I think, in indicating the ways in which we can strive to realise not only justice but community through the many social unions of which the liberal State is the super social union" (Gutmann, 1985:49).

Having attempted to demonstrate that the eudaimonic State is capable of satisfying at least some of the principal requirements both of liberals and communitarians, as represented by Rawls and MacIntyre, I will endeavour to sketch the basic outline of a State that might qualify as being eudaimonic. As observed in the previous chapter, the eudaimonic State will have as its overall goal providing the opportunity for happiness for each of its citizens. This entails each citizen having the capability of creating a sufficiently populated eudaimonic field. The most important requirement for this is the opportunity for the acquisition and exercise of virtue

⁵⁶ In the terms I have defended they should be shown the rationality of choosing the Aristotelian strategy, being the only reliable route to happiness.

which requires both participation and proximity. An effective means of achieving this could involve facilitating semi-autonomous local communities similar to those envisaged by MacIntyre. However, in the circumstances I have argued for, rather than stipulating a particular way of functioning, as MacIntyre seems to do, they will serve as a framework supporting a diversity of forms of association. These associations will be free to pursue whatever goals their members desire and in which any member of the community may participate. In order to be as autonomous as possible these communities will be empowered to provide for themselves as many as possible of the goods and services they require in order to enable their members to sufficiently populate their individual eudaimonic fields. Where goods and services have, for political or economic reasons, to be provided at a national level local communities will have a voice in debates concerning such provision. Furthermore, the provision of such goods and services, and the debates concerning them, will be subject to the demands of proximity. That is, all parties to this arrangement must have the opportunity to understand the character of those with whom they are dealing and to experience the consequences of their own actions.

Kymlicka and Norman, however, identify some potential issues concerning this arrangement. Firstly, they suggest that "...faith in the educative function of participation seems overly optimistic" (Kymlicka and Norman, 1994:361). They make the point that people join local associations on the basis of the good they believe an individual association offers, suggesting that "The reason why people join churches, families or ethnic groups is not to learn civic virtue" (1994:364). They go on to suggest that, "The answer according to many liberal virtue theorists is the system of education. Schools must teach children how to engage in the kind of critical reasoning and moral perspective that defines public reasonableness" (1994:366). This supports the need, identified in the previous chapter, for the opportunity of acquiring and exercising virtue to involve provision of moral education by way of support for our ability to make appropriate choices. Consequently, the legislator needs to incorporate lessons in virtuous citizenship into the school curriculum and, in addition, he might create some transitional arrangements to enable school leavers to adjust to their new position in society.

Kymlicka and Norman also suggest that a semi-autonomous community of the sort being proposed may result in the collective pursuit of goals that potentially conflict with the goals of society as a whole. They suggest that some critics argue that virtues learned as a member of such a community "...may sometimes be necessary for good citizenship, [but] they are not sufficient and may sometimes be counterproductive" (1994:365) supporting the suggestion

that there may need to be some form of governmental intervention to prevent this from happening. However, they also make the point that “...this may go too far in the other direction. Rather than supporting voluntary associations, this approach may unintentionally license wholesale intervention in them” (1994:364). Furthermore, in this respect, when, through the process of education, children are taught to question authority care must be taken that the principles on which the community is founded are not undermined (1994:367).⁵⁷

The above suggests that some form of two-way communication with national government seems to be required through which details of local initiatives can be discussed and any adjustments required can be agreed and, consequently, through which the interests of community and State can be balanced. Polly Toynbee suggests a means by which this may be achieved. She observed that, by way of reducing his work load as a member of parliament, “Clement Attlee left constituency matters to local councillors” (Toynbee, 2012). If, in the United Kingdom, such an arrangement was to be formalised and it became part of the responsibility of both local councillors and members of parliament to consult regularly on such matters it may serve to provide the appropriate level of national government involvement in local communities. Furthermore, by establishing a formal link between various forms of local association, local government and national government we create an opportunity for all citizens to actively participate in the political process.

With this, the outline of a potential eudaimonic State is complete. It might be noticed that it has some features in common with the British Coalition government’s concept of the “Big Society” which Glasman believes “...lays down a very serious challenge to progressive politics” (2010:61). As this is a political initiative its motives might be open to question, however, my interest in it is as a conception of society that might provide the sort of structure that would satisfy MacIntyre's requirements and facilitate the creation of the capability of happiness. Consequently I will consider it as such and attempt to take an objective view of the benefits it might provide and the weaknesses some of its various critics have identified. As regards the potential benefits, Glasman (2010:61, original emphasis) suggests there are four. Firstly, the Big Society encourages “volunteering and an active sense of community”. In the terms defended in this thesis, this might be considered to create conditions of proximity and participation and engender the virtue of generosity through the donation of time and effort to community projects. Secondly, it provides “support for *social entrepreneurs*, people whose

⁵⁷ This assumes that the principles which underpin the community in question are not themselves directly damaging to the interests of the State.

work it is to strengthen society". These "social entrepreneurs" might be considered to be the "planners" in the planner/doer relationships the natural form of which we need in order to establish the common enterprises with agreed goals and rewards that MacIntyre demands. The third benefit that Glasman identifies is that it provides a "strong stress on the mutualisation of public services". Once again this can be interpreted as contributing to conditions of proximity and participation but also to establishing the common goals that are representative of the specific needs of individual communities. It could also be considered to be a means of reducing a community's domination by the State which is of such concern to MacIntyre and introducing a degree of freedom of choice as demanded by liberals. Finally, Glasman suggests that the Big Society is capable of generating "*radical localism* in terms of civic government". This would appear to be a further step in terms of creating a significant degree of autonomy and independence from direct State control such autonomy being a characteristic of communities within a eudaimonic State

It seems, therefore, that the features of the concept of the Big Society, as described by Glasman, might be well suited to the needs of a legislator charged with creating a eudaimonic State. However, various critics have identified problems with the Big Society, as a political initiative, which may have implications for the legislator, consequently these should be examined. The criticisms can be interpreted in terms of two main concerns; the concern that the Big Society is an attempt by the State to divest its responsibility for welfare provision and the concern that it is vulnerable to a lack of resources.

As regards the first concern, Kisby claims that "At best [the Big Society] is essentially empty, nothing more than an encouragement to citizens to do 'good deeds' in the community." and "At worst, it is dangerous, a genuine belief that charities and volunteers, rather than the state, can and should provide numerous, core public services" (Kisby, 2010:490). Sage (2012:376) seems to endorse this by claiming that Big Society tends to create "small government" as it allows the State to divest itself of its public welfare responsibilities and it encourages individualism by, essentially, leaving citizens to find their own solutions to their welfare problems. Corbett and Walker (2012:491) support these criticisms observing that a similar concept was tried in China between 1988 and the early 2000s which ended in failure. They suggest that the Chinese initiative was unsuccessful because, *inter alia*, it failed to recognise the scale of the problem and the State did not provide effective leadership. However, it might be argued that these criticisms concern the manner in which the concept of Big Society has

been implemented or the political motivation behind its implementation. That is, they appear to be concerned with accidental rather than necessary qualities of the concept.

The second concern, that the Big Society will inevitably lack the resources it requires, may be more telling. The resources that appear to be lacking are time and money. Glasman observes, “Big Society rhetoric has some important things to say about the state but none about the market...” and “Put simply, it is hard to engage in public life if you have to work two jobs because you are not paid enough to live” (Glasman, 2010:62). Mycock and Tonge suggest that “Emphases on volunteerism, social citizenship and an organic civil society bypass the disparities in wealth and life-opportunities that can shape attitudes to social activism, citizenship and community” (Mycock and Tonge, 2011:64). Kisby (2010:488) argues that a conception of the Big Society that relies on volunteering and social enterprise will not be able to address problems of wealth inequality unless the state takes a redistributive role and provides sufficient funding for this purpose. Corbett and Walker (2012:491) suggest that the failure of the Chinese project was partly brought about by a lack of State funding.

It may be thought that charities might provide, or at least contribute to, the necessary funding. However Kisby (2010:488) suggests that it may not be desirable for the charity sector to take on responsibility for public services. Nussbaum (2011:119) appears to give some support to this concern when she suggests that a State that depends on nongovernmental institutions for the provision of services is in danger of being undemocratic by potentially putting power into the hands of the major donors to those charities. It seems, therefore, that there may be no alternative to State funding. However, relying on State funding of public services may be problematic as Grint and Holt observe, public services generally are subject to electoral cycles and “in particular the possibility that funding streams could be shut off or that priorities change and support wither or grow as the political or commercial winds of change” (Grint and Holt, 2011:95).

This last point is clearly illustrated by the experiences of Manton, a former mining community and suburb of Worksop in the United Kingdom. Manton formed a community alliance in 2003 in response to criticisms of unsatisfactory local engagement and by 2011 it had achieved participation levels of 61%.⁵⁸ It also experienced a doubling of the number of people taking on leadership roles and significant reductions in anti-social behaviour and crime generally.

⁵⁸Manton Community Alliance was not a consequence of the political initiative to create a “Big Society”. However, it was a community initiative that involved many of the principles that have been identified as forming the concept of the Big Society which is being proposing as the basis of a eudaimonic State.

Amongst other benefits this resulted in Manton no longer being one of the worst ten areas in Nottinghamshire for anti-social behaviour. One resident on being asked if the community association had influenced his behaviour at all, on reflection, replied “I and my family don’t throw our crisp packets on the floor now” (Manton Community Alliance, 2011). This may be only a minor change in behaviour but it suggests that there is some basis to the belief that participation can engender virtue.⁵⁹

In reality the achievements of Manton Community Alliance were considerable. As their web site suggests, they were able to involve large numbers of residents who were engaged in, and in turn influenced, local initiatives. As a consequence they were able to contribute to the design of local services resulting in improved cost effectiveness and to use the skills and experience of those participating to enhance the well-being of the community generally. In fact, in 2010 75% of those surveyed felt that Manton was improving as a community and in June 2011 60% claimed that they would be worse off if they no longer had the Community Alliance. Notwithstanding these impressive achievements, on 31st December 2011 the Alliance ended due to removal of government funding as a consequence of restrictions on public spending (Manton Community Alliance, 2011). This clearly demonstrates that if a eudaimonic State, along the lines that have been proposed, is to be established it will require the support of an economic system that is democratically controlled and provides, at a local level, the wealth creation necessary to satisfy the needs of its citizens. Furthermore, it must achieve this without unacceptable constraints on leisure time and in a manner that is sustainable and minimally affected by political changes at national level.

In conclusion, I have attempted to apply at least some of the essential characteristics of Aristotle’s ideal *polis* to a modern democratic State. Furthermore, I have done so in a manner so as to refute MacIntyre’s claim that such a project is impossible and which might have the potential to be acceptable to liberals and communitarians alike. As a consequence I have formed the outline of a State whose goal is the capability of happiness for all its citizens, involving local multicultural communities offering a wide range of opportunities for participation and supported by formal and informal systems of education and personal development; communities which are integrated with the processes of local government through which they enjoy the benefits of formal two-way communication with national government. I have also identified two of the principle obstacles to realising such a State as

⁵⁹ This also supports the idea that virtue can be engendered through participation without the need for a single unifying goal other than the rational pursuit of happiness.

being the absence of sufficient reliable sources of funding and the lack of time necessary for citizens to participate effectively. Business is the paradigm means of generating wealth and it is an activity to which many people devote a great deal of time in a variety of ways. Consequently, I will endeavour to understand how business stands in relation to my conceptions of happiness and the eudaimonic State. This will form the subject of the next section.

Section II

Two Views of Business

Chapter 4

The Role of Business – A Social Perspective

In the *Politics* Aristotle makes the following comment:

There are two sorts of wealth getting, as I have said; one is a part of household management, the other is retail trade: the former is necessary and honourable, while that which consists in exchange is justly censured; for it is unnatural, and a mode by which men gain from one another (*Pol* I, 10, 1258a39 – b3).

In this chapter I will begin by examining Aristotle's claim, which many have interpreted as a condemnation of the market and of business in general. I will attempt to establish Aristotle's reasons for rejecting retail trade and relate them to the objective of a eudaimonic State; the creation of the capability of happiness for all citizens. I will go on to compare the role of business, in terms of contributing to this objective, with the modern concept of stakeholding. In doing so I will consider the origins of stakeholder theory and its current forms and I will attempt to identify those elements of the theory that relate to the capability of happiness. I will consider the nature and basis of the claims of individual classes of stakeholder and relate these to their needs in terms of the rational pursuit of happiness. I will conclude by suggesting that stakeholder theory can be utilised in order to define the contribution that the eudaimonic State needs business to make in order to contribute to the creation of the capability of happiness.

Megone makes the point that the distinction that Aristotle draws between household management and retail trade concerns their ultimate goal, the creation of wealth. The distinction being that the former has a limit whereas the latter does not (Megone, 2002:50). I will, therefore, consider why, from the perspective of creating the capability of happiness, the unlimited pursuit of wealth might be considered undesirable. Worden suggests that Aristotle's concern is with the problem of "misordered concupiscence" that is, taking a means to an end to be an end in itself. He suggests that taken as a means to an end the acquisition of wealth is necessarily limited to that which is required to satisfy the requirements of the end in question. For Aristotle the end was the needs of life and in particular the purposes of the household and participation in the life of the *polis*. Worden also suggests that there is an additional limitation

on wealth generation related to the availability of natural resources and the effort required for converting those resources into wealth. However, he is clear that Aristotle's principle concern is not with physical constraints on wealth generation but with the normative issues involved in pursuing the wrong end. He claims that, for Aristotle, "Conflating profit-seeking with the highest good involves investing too much enjoyment in profit seeking" (Worden, 2009:215). Megone seems to endorse this claim, suggesting that the pursuit of unlimited wealth can threaten the virtues of temperance and generosity by causing the individual to "...indulge in immoderate and unnecessary sensual pleasures..." and to "...encourage the agent to care too much about wealth..."(Megone, 2002:52).

Clearly, the above suggests that pursuing wealth as an end in itself is a moral hazard, potentially encouraging vice and thereby impeding the rational pursuit of happiness. However, the objective of the eudaimonic State is not to make its citizens happy but to create the circumstances in which the rational pursuit of happiness is possible. The owner of a business may pursue happiness, properly conceived, in whatever manner she wishes, as long as in doing so she does not impede the capability of happiness of any other citizen. This includes, subject to that constraint, the pursuit of wealth for its own sake.

However, business consumes the time that those engaged with it require in order to acquire and exercise virtue, which, as noted in Chapter 1, is a necessary requirement for happiness. However, in Chapter 2 I suggested that the acquisition and exercise of virtue requires participation in common endeavours with agreed goals and an agreed basis for measuring and rewarding contribution. Furthermore, in Chapter 3 I argued that such participation is best achieved in the context of local communities, such as Manton Community Alliance. I claimed that such communities might be considered to represent the concept of the "Big Society". It was also observed that, for many people, their need to "make a living" is such that they are involved in the workplace to an extent that precludes the possibility of such participation.⁶⁰ However, the eudaimonic State, in pursuing its objective of creating the capability of happiness for all its citizens, needs to provide opportunities for participation. Consequently, as

⁶⁰ Skidelsky and Skidelsky (2012) point out that Keynes predicted a time in which there would be a levelling off of growth in GDP due to consumers largely having satisfied their material needs. Keynes believed that this reduction in market growth would bring about a reduction in working hours and consequential increase in leisure time. Skidelsky and Skidelsky observe that Keynes' prediction has not been realised due in part to capitalism's stimulation of apparently insatiable demand. Their solution is to replace the free market with a controlled economy and encourage ethical norms intended to combat consumerist tendencies. This is a state of affairs that does not currently exist and may never do so. As my stated purpose is to consider the conduct of business within the context of the prevailing economic system, that is the free market, their solution is not available to me.

business employs a very substantial number of those people who are engaged in the workplace, the eudaimonic State needs business to be conducted in such a way that it provides opportunities for all involved to acquire and exercise virtue as a part of their involvement. That is, it needs business to engage in the pursuit of wealth in such a manner that contributes to the capability of happiness. The principal obstacle to this is, as Worden observes, the effort required to generate wealth. Megone makes the point that "...the pursuit, in business, of maximising wealth may, by encouraging the agent to consider it as an end in itself, also lead him to devote undue time and energy to this activity, rather than seeking the necessary leisure time for the development of virtue, and of *eudaimonia*" (Megone, 2002:52). Expressed differently, unlimited wealth might be considered to be a hedonistic good as, although we might find the idea of it pleasant, in Kraut's terms it goes beyond that which is required for flourishing (Kraut, 2009:187). As noted in Chapter 1, if we allow the pursuit of a hedonistic good to become obsessive it can "crowd out" the developmental goods which we require in order to create and populate a eudaimonic field.

The above suggests that in order to create the capability of happiness the owners of businesses should not seek to maximise wealth but should limit themselves to creating the wealth needed sufficiently to populate their eudaimonic fields. However, this is problematic for business for two reasons. Firstly, different individuals have different requirements in terms of the goods they deem necessary in order to achieve happiness. Consequently it is not possible to specify what degree of wealth generation is sufficient. Secondly, wealth is necessary for livelihood and people are generally anxious about their livelihood resulting in them being inclined to seek greater wealth than they might reasonably need as a hedge against future uncertainty (Lewis, 1978:75). In order for business to accommodate these two requirements it may be that, even if the pursuit of wealth is not its ultimate goal, it none the less needs to maximise wealth generation.

The State, therefore, has a problem in that on the one hand it requires business to generate the wealth that constitutes a strong economy to provide, *inter alia*, "...good schools, hospitals, athletic facilities, parks, theaters, museums – the public institutions that cater to all forms of flourishing..." (Kraut, 2009:187). That is, the goods required to populate a eudaimonic field. On the other hand it needs those involved in business to have sufficient time available to satisfy the demands of creating a sufficiently populated eudaimonic field. As observed in Chapter 3, this can be partially addressed by statutory limits to the length of the working week and minimum annual holiday entitlements. It was suggested that these safeguards, taken together

with the provision of compulsory education for the young, provided sufficient leisure time to meet the demands of at least the threshold levels of Nussbaum's ten Central Capabilities required for each agent to have the chance to minimally populate the eudaimonic field.

However, in order to create a eudaimonic field we need to be virtuous which requires us to have the opportunity to acquire and exercise the virtues. As noted in Chapter 2, virtue involves the ability to make appropriate choices supported by moral education, the opportunity to participate in natural planner/doer relationships (in either capacity) and the ability to experience the consequences of our actions. Clearly, virtue is such that it cannot only be exercised at weekends or in the holidays; it is something that is involved at all times in all our choices and actions. This was one of the reasons that in Aristotle's ideal *polis* citizenship was restricted to those who were free from the day to day demands of wealth generation. This suggests that, in the absence of sufficient free time, citizens must have the opportunity of acquiring and exercising virtue during the course of the working day. Consequently, if those citizens of a eudaimonic State who are engaged in business are to acquire and exercise virtue, business must be conducted in such a way that it provides the conditions necessary for creating the opportunity to do so. This clearly suggests that business has both an inward looking role, largely concerned with the manner in which those involved might acquire virtue, and an outward looking role concerning how that virtue is exercised. That is, business must structure its activities such that its employees have the opportunity to participate in the common endeavours of the communities within which it trades.⁶¹ Expressed differently, the eudaimonic State needs business to engage with those citizens with whom it is involved in a manner that provides opportunities for the acquisition and exercise of virtue. In contemporary business ethics engagement with those involved with business is the subject of stakeholder theory. I will, therefore, evaluate this theory in terms of its potential for contributing to the creation of opportunities for the acquisition and exercise of virtue.

Stakeholder theory was developed as a response to the pressures of globalisation (Crane and Matten, 2004, Blowfield and Murray, 2011, Vogel, 2005). Blowfield and Murray suggest that the impact of globalisation began to be felt in the 1980s and that since 1990 there has been an enormous increase in international trade. Prior to this the attitudes of business towards its employees were essentially paternalistic, at least in those cases where business was concerned with social welfare. Initially this was in response to the poor conditions created by the

⁶¹ This chapter deals with the manner in which participation in local communities might be achieved. The inward looking role of business, in respect of the corporate structures and practices required, will be discussed in chapter 6.

industrial revolution. These led to the emergence of the great philanthropic employers in the 19th century such as Cadbury and Rowntree, "...who established villages at Bourneville and New Earswick respectively, within which their workers could live in supportive communities with open spaces, shops, and schools in easy reach" (Blowfield and Murray, 2011:36). In the 20th century, particularly as a consequence of the first world war "Business leaders were forced to consider the impact their activities were having on wider society and some engaged in movements such as "New Capitalism" promoting the idea that business should voluntarily take steps to portray itself and its activities as beneficial to society at large" (Blowfield and Murray, 2011:38). During the 1960s and 1970s corporate philanthropy increased in importance such that in America associations such as the "5 percent club" emerged in which member companies donated a percentage of their pre-tax profits to philanthropic causes (Vogel, 2005:18).

Prior to globalisation corporate philanthropy was made possible because of a particular set of prevailing conditions. Those corporations that pursued wider social purposes did so out of enlightened self-interest or out of a sense of obligation to society:

Such a firm was typically large and professionally managed, and its shares were widely held. It enjoyed a reasonably secure or very secure market position – often an oligopolistic one – and faced little if any foreign competition, at least in its domestic market. Importantly, neither the compensation nor the tenure of its managers was directly linked to its earnings or share price (Vogel, 2005:25).

With the increasing influence of globalisation these conditions changed fundamentally. Crane and Matten describe two principal consequences for business. Firstly, there are technological changes associated with globalisation involving communications such as the telephone and in particular the internet and global sea and air transportation. The consequence of these is that business can readily be conducted between parties who are geographically separated by vast distances and domestic markets are increasingly less relevant. Secondly, there have been political changes, notably within eastern Europe and particularly the EU, that have resulted in a diminution of the importance of national borders greatly reducing obstacles to transnational business (Crane and Matten, 2004:16).

The impact of these changes on business has been twofold. Firstly, there is "...increased domestic and international competition, threats of hostile takeovers, the concentration of ownership in the hands of institutional investors, and changes in the basis of executive

compensation...”(Vogel, 2005:26). As a consequence managers no longer have the degree of discretion required to pursue socially orientated goals; post globalisation they have to be much more concerned with shareholder value than social philanthropy. The second impact concerns the relationship of the State to the emerging multinational corporations. The ability of business to be conducted across national boundaries has resulted in a reduction in the degree of control that national governments can have on it, “...for example: French laws are only binding on French territory, UK laws on UK territory, and so on” (Blowfield and Murray, 2011:19). Consequently as Blowfield and Murray suggest, a business wishing to avoid particular restrictions can relocate all or part of its activities to a country where legislation may be more conducive to its goals.

Secondly, globalisation has served to increase the power of multinational corporations who “...own the mass media which determines much of our information and entertainment intake, they supply global products, they pay people’s salaries, and they pay (directly or indirectly) much of the taxes that keep governments running” (Blowfield and Murray, 2011:19). Such corporations, as Blowfield and Murray observe, are often financially stronger than some countries within which they trade and consequently they act in ways that are important to the citizens of that country but are not accountable to them.

It is this pressure for business to pursue shareholder value in an environment of relatively weak regulation that some believe has led to the emergence of demands for, and theories of, corporate social responsibility (CSR). CSR began to take on significant importance in the 1990s as a response to increasing international trade and investment and the trend towards privatisation and deregulation at the national level. These trends have caused some to argue that “...multinational businesses can no longer be effectively monitored or controlled by national governments” (Vogel, 2005:8). It may be that it is criticisms of business “...as reaping the benefits of globalisation without taking responsibility for its negative consequences...” that are a major force behind demands for corporate responsibility (Blowfield and Murray, 2011:117). Blowfield and Murray (2011:42) summarise the problem by citing Stiglitz to the effect that globalisation produces “...a system of global governance without global government...”. An attempt at solving this problem has produced what Vogel calls “civil regulation”, a system of standards of business conduct that are not legally enforceable. This involves various pressure groups combining to cause business to adopt practices that the demands of national or international law do not (Vogel, 2005:9). One of the consequences of this is the emergence of stakeholder theory.

Stakeholder theory and CSR can be understood to relate to each other in the sense that whereas CSR defines what business is responsible for, stakeholder theory concerns to whom business is responsible (Blowfield and Murray, 2011:47-50, Crane and Matten, 2004:50). However it is not yet clear what, in the context of a eudaimonic State, the basis of corporate responsibility might be and this will be addressed in the next chapter. For the present I will consider stakeholder theory in terms of the obligations which business owners have *qua* citizens regarding the conduct of their businesses and the needs the eudaimonic State has in terms of business contributing to the creation the capability of happiness for all citizens. As was argued in Chapter 3, the owner of a business, as a citizen, has a right to the capability of happiness in exchange for which he agrees to observe the laws of the State which, it might be assumed, embody the corresponding negative obligation not to deny any other citizen the capability of happiness, where the capability of happiness is understood as the possession of a sufficiently populated eudaimonic field. As long as the owner observes this obligation he may pursue happiness in whatever manner he wishes.

As a consequence of the above it might be noticed that there appear to be two distinctly different objectives for business; for the owner of a business it is the pursuit of happiness and for the State it is creating the capability of happiness. It might be said that these two objectives represent the stake that each has in the business. Furthermore the stakes that any other citizens have in a business are dependent in some way on the manner in which these two principal stakeholders go about achieving their goals. That is, the capability of happiness of all those citizens engaged with business, expressed in terms of possessing a sufficiently populated eudaimonic field, requires business owners and the State to satisfy two obligations. The owner must conduct her business such that it does not prevent any citizen from possessing a sufficiently populated eudaimonic field. Whereas, the State must create the circumstances such that business owners perceive their happiness in terms of conducting their business so as to contribute to the opportunity for those engaged with it to possess a sufficiently populated eudaimonic field. On this basis the stake of those, other than owners, who are engaged with businesses, might be considered to be constitutive of that of the State. Expressed differently, the eudaimonic State might be considered as an agent of the other stakeholders. Before going on to consider, in the next chapter, the mechanisms by which that might be brought about I will attempt to establish to what extent stakeholder theory is appropriate as the basis of achieving the objective of a eudaimonic State.

Blowfield and Murray (2011:207) point out that, although the term stakeholder had been in use since the 1930s, it was Freeman in 1984 who formalised it in the terms of a comprehensive theory. Freeman (2010:25) defined a stakeholder in a business as “...all of those groups and individuals that can affect, or are affected by, the accomplishment of organisational purpose”. Freeman’s definition creates a very wide range of potential classes of stakeholder in a business, even going as far as including terrorists (Freeman, 2010:53). However, conventionally stakeholders are considered to fall into one of seven categories; owners, government, employees, customers, suppliers, competitors and civil society (Crane and Matten, 2004:51).⁶² Freeman’s objective was to provide a conceptual framework within which business managers could assess and plan for the wide variety of demands and requirements imposed by a diversity of interests, the recognition of which is important in terms of business success. It is important here to note that Freeman proposed stakeholder theory as a means by which companies might gain competitive advantage in “turbulent times” where “Local, national and global issues are having far-reaching impacts on organisations” (Freeman, 2010:4). Such an approach to stakeholder engagement is what Goodpaster et al describe as a “*prudential synthesis*” a consequence of which is that “...negative effects on relatively *powerless* stakeholders (those who cannot retaliate) may be ignored or discounted in the synthesis and eventual decision” (Goodpaster et al., 2002:44 original emphasis). A view endorsed by Walsh in his review of Freeman’s book⁶³ where he points out that if a “win-win” outcome for the firm and its stakeholders is not possible it is the interests of the firm that must predominate such that the interests of small or insignificant stakeholders must be removed from consideration (Walsh, 2005:428). An example of such a circumstance might be “...taking a money-losing product sold to poor communities off the market” (Blowfield and Murray, 2011:210).

Many commentators, however, feel that conceiving of the relationship between a business and its stakeholders in such a prudential or instrumental manner is unsatisfactory and argue for a form of stakeholder engagement that embodies the Kantian concept of treating an individual as an end in herself and not as a means to an end (Crane and Matten, 2004:227). Donaldson and Preston (1995:66-7,87) claim that a stakeholder theory that is instrumental in that it contributes to the competitive advantage of a business can also be ethical in precisely these terms. They suggest that stakeholder theory has three different aspects or potential

⁶² Spence (2001:334) suggests that competitors are often excluded from this list due to the dominant large-firm perspective that requires independence from them. However, the engagement of businesses with their competitors has important consequences for the capability of happiness and therefore I will include this category.

⁶³ Strategic Management: A Stakeholder Approach (1984)

uses; descriptive, instrumental and normative. Used descriptively “It presents a model describing what the corporation is” whereas, when applied instrumentally, “It establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals.” Finally, from the normative perspective, it embodies two principles; that “Stakeholders are persons or groups of persons with legitimate interests...” and that “The interests of all stakeholders are of intrinsic value”. Donaldson and Preston argue that not only are these three aspects of stakeholder theory compatible, they are mutually supportive and the normative aspect is foundational.

However, Goodpaster et al (2002:46-7) find this sort of idea problematic, identifying what they describe as two paradoxes. Firstly, the management of a business involves a fiduciary responsibility to its owners such that the essentially normative basis of Donaldson and Preston’s conception of stakeholding would be illicit. That is, if acting normatively is not in the best interests of the owner of the business, managers who put the interests of other stakeholders first will be in breach of trust. This has the effect of inverting Donaldson and Preston’s conception. On this interpretation it is the instrumental aspect that becomes foundational, making normative considerations contingent on their being consistent with the interests of the business; that is, with the pursuit of competitive advantage. Consequently, for a business to be managed legitimately, according to Donaldson and Preston’s model, stakeholders must be treated as means to an end and not as ends in themselves, thereby effectively eliminating the normative aspect of their model.

What emerges from these debates is two perspectives. Windsor calls them ethical and economic and which are, “...antithetical theoretical perspectives embedding competing moral frameworks and political philosophies” and that “Any satisfactory theoretical synthesis must discover some unknown subset of ethical principles also yielding corporate competitive advantage” (Windsor, 2006:93-4). This provides the paradox described by Goodpaster et al in their claim that, in respect of a normative conception of stakeholding, “It seems essential, yet illegitimate, to guide corporate decisions by ethical values that go beyond prudential or instrumental stakeholder considerations to impartial ones” (Goodpaster et al., 2002:46).

The second paradox that Goodpaster et al identify concerns the diverse nature of the stakes that individuals can be considered to have in a business. They suggest that there is an inevitable conflict between the good for an individual, the common good of a stakeholder group and the good of the organisation as a whole. This suggests that a normative stakeholder theory will have to overcome the obstacle of needing to pursue a common good which may

not reflect the good of the individuals involved, leading Goodpaster et al to the conclusion that “It seems essential, yet problematic, to guide corporate decisions by a view of the common good arrived at by simply aggregating separate stakeholder costs and benefits” (Goodpaster et al., 2002:48).

Taken together these two paradoxes seem to suggest that a normative stakeholder theory may be either illegitimate or impractical. Goodpaster et al (2002:49,52,59) suggest a solution that, rather than attempting to resolve the paradoxes, seeks to establish a conception of business in which they do not arise. In order to achieve this they appeal to the idea of “conscience” expressed in terms of an awareness of the needs of others and a desire to act unselfishly towards them, which they argue must be institutionalised within businesses. Goodpaster et al suggest that such a conscience might be brought about by applying a set of self-assessment criteria. This is essentially a matrix of questions concerning the business’s engagement with stakeholders that enable it to measure and, where necessary, improve on its performance in this respect.⁶⁴ In a business which possesses such a conscience management will tend to consider the interests of stakeholders, not because a decision model tells them they must, but because under the circumstances it is the virtuous thing to do. It seems that it may be this type of business that the eudaimonic State requires.

Goodpaster et al’s idea relies critically on managers being virtuous people and, of course, this may not be the case. Furthermore, even if a manager is inclined to be virtuous he may still encounter difficulties. As Gibson suggests, “If we staff our businesses with individuals who are trained and rewarded solely as profit maximizers, it would take a very morally strong and courageous manager to guide the company to benefit stakeholder interests” (Gibson, 2000:247-8). It seems, therefore, that a business that avoids the two paradoxes identified by Goodpaster may require an objective other than that of maximising profit. Consequently, the owner of such a business must require it to pursue the interests of others, at least to some extent, even if this has the effect of diminishing his financial returns. If this situation does not prevail it appears that the business cannot avoid Goodpaster et al’s two paradoxes.

However, there is another way of viewing this apparent impasse. As observed in Chapter 2, problems associated with normativity and diverse conceptions of the good might be overcome by an appeal to meta-normativity and in particular the capability of happiness. Expressed in these terms, the two paradoxes can be considered to concern the conflict between creating

⁶⁴ This idea of a matrix of performance measures will be discussed further in chapters 5 and 8.

the capability of happiness for all stakeholders and the pursuit of happiness, in the case of the first paradox, by owners, and in respect of the second, by other stakeholders.

In order to avoid the conflict identified in the first paradox, it is necessary to resolve the tension between the eudaimonic State's need to create the capability of happiness for all its citizens and the owner's right to pursue happiness in whatever manner she wishes and this is the subject of Chapter 5. In this chapter I will address the means by which business can avoid the second paradox, brought about by the perception of a multiplicity of individual ends, by contributing to the creation of the capability of happiness for all stakeholders.

The first problem to be overcome is to obtain a suitable definition of a stakeholder. Andriof and Waddock (2002:30) point out that, although there has been a great deal of effort to establish an alternative, Freeman's definition, which defines stakeholders as all those who can affect or are affected by a business, still predominates. However, Donaldson and Preston suggest that this definition is too broad and that it "...opens the stakeholder set to actors that form part of the firm's environment – and that, indeed, may have some impact on its activities – but that have no specific stake in the firm itself. That is, they stand to gain no particular benefit from the firm's successful operation" (Donaldson and Preston, 1995:86). A plausible route to follow is suggested by Crane and Matten who cite Evan and Freeman in identifying two principles that support the stakeholder concept, the "principle of corporate rights" and the "principle of corporate effect". These involve the ideas that business must respect the rights of others and must be responsible for the effect they have on others respectively. This enabled Crane and Matten to suggest a more precise definition of a stakeholder:

A stakeholder of a corporation is an individual or group which either:

- is harmed by, or benefits from, the corporation:

or

- whose rights can be violated, or have to be respected, by the corporation (Crane and Matten, 2004:50).

I am now in a position where the idea of a stakeholder as defined above can be related to the objective of a eudaimonic State; that is, to the creation of the capability of happiness for each citizen. This suggests an alternative definition of a stakeholder in a business as being: *an individual, considered individually or collectively,*⁶⁵ *whose capability of possessing a sufficiently*

⁶⁵ Considering an individual collectively involves recognising that the stake held by an individual in a business is specific to the particular circumstances of each but that certain groups of individuals have

populated eudaimonic field can either be impeded or promoted by the actions of a business. I will proceed by applying my definition of a stakeholder to the seven classes of stakeholder described above as being those conventionally treated as having a legitimate stake in a business.

As noted above, conventionally stakeholders are considered to fall into one of seven categories: owners, government, employees, customers, suppliers, competitors and civil society (Crane and Matten, 2004:51). As observed earlier, the two principal stakeholders are government (the eudaimonic State) and owners, their stakes being expressed in terms of their objectives of creating the capability of happiness and pursuing happiness respectively. The nature of the stake held by the State has been considered at length in Chapter 3 and the owner's stake in his business will be discussed in Chapter 5. Consequently the enquiry here is restricted to the remaining five classes of stakeholder and, in accordance with my definition, I will examine how business might impede or promote the capability of happiness of each. Firstly I will consider how business might impede the capability of happiness of each of the classes of stakeholder and the sort of safeguards that might be required to prevent this. Secondly, I will consider how business might contribute to creating the capability of happiness for all of them.

In Chapter 2 I considered the capability of happiness in terms of the capability of possessing a sufficiently populated eudaimonic field. This requires the possession of virtue in order to create the field and at least the threshold level of Nussbaum's ten central capabilities to populate it. The eudaimonic State, therefore, needs businesses to be conducted in a manner such that the individual's right to those capabilities, together with the opportunities to acquire and exercise virtue, are respected. Crane and Matten (2004:344) point out that employees and customers are effectively the only classes of stakeholder in respect of which the business has direct dealings with individuals. I will therefore consider these two classes first, beginning with employees.

The contract of employment is a widely used means of establishing the range of rights and obligations that employers and employees have in respect of each other. There is also often a significant amount of legislation surrounding such contracts that specifies and regulates a wide range of issues that are likely to exist between businesses and their employees (Crane and

stakes that are sufficiently similar that they are capable of being aggregated. For example a particular employee may need to combine work with child care and therefore has a stake in the business allowing him to work particular hours. These specific needs might be met by the establishment of a standard working day applicable to all employees.

Matten, 2004:225). I will therefore begin by examining the extent to which these arrangements relate to the capability of happiness.

Crane and Matten suggest that there are eight principle employee rights that, to a greater or lesser extent, are, or should be, protected by legislation. These are: “Right to freedom from discrimination; Right to privacy; Right to due process; Right to participation and association; Right to healthy and safe working conditions; Right to fair wages; Right to freedom of conscience and speech; Right to work” (2004:228). How then do these eight rights relate to the ten capabilities that, together with virtue, constitute the capability of happiness? I will begin by establishing that the right to freedom from discrimination involves the principle that each and every citizen of a eudaimonic State has a right to the capability of happiness. In our terms, it requires that the business must ensure that it acts in such a way that it does not deny *any* employee any of the capabilities to which the State gives them a right.

The other employment rights that Crane and Matten describe can also be seen to relate to the capabilities required for happiness. The right to privacy involves, *inter alia*, “... physical inaccessibility to others...freedom to interact with other people and in whichever way we choose...controlling emotional and cognitive inputs and outputs, and not being compelled to share private thoughts and feelings” (Crane and Matten, 2004:238). These can be considered to protect, in part, the individual’s right to capabilities such as “Being able to use one’s mind in ways protected by guarantees of freedom of expression...Not having one’s emotional development blighted by fear and anxiety...to engage in various forms of social interaction...” (Nussbaum, 2011:33-4). Similarly, the right to safe working conditions entails protection from any threat to the employees’ health, physical or mental, including limiting working hours. Thus serving to protect elements of the capabilities involving ‘life’, ‘bodily health’ and ‘play’ the first, second and ninth of the ten central capabilities. The eudaimonic State is both obliged and entitled to demand that business does not act in such a manner as to deny any employee the capability of happiness and thus would wish to embody such necessary protections in law.⁶⁶ However, as I have argued, the State also needs business to respect the employees’ need for the opportunity to acquire and exercise virtue, the most important component of happiness.

The acquisition and exercise of virtue requires opportunities for participation and proximity. Such opportunities might, at least in part, arise from what Crane and Matten describe as

⁶⁶ As observed in Chapter 3, the ten Central Capabilities are, necessarily, vague and because of that the various employment protections described here cannot be directly compared. However, it should be clear that the Capabilities and the protections described are at least compatible with each other.

codetermination. This involves participating in the various strategic decisions a company makes. Some such decisions may involve issues relating directly to the employees themselves, such as recruitment, redundancy or employee benefits, whereas others, such as product design, marketing or changes in manufacturing processes, may involve other stakeholder groups. Crane and Matten point out that direct participation may not be possible in organisations where there are large numbers of employees and suggest that in these situations representation through works councils or trade union membership would be the appropriate form of participation. However, they also point out that some companies will go to considerable lengths to avoid setting up works councils or recognising trade unions. As this would be a potential obstruction of the capability of happiness a eudaimonic State ought to legislate to protect an employee's right to this form of association, as is the case in many countries, particularly those of Western Europe (Crane and Matten, 2004:244-5). However, such legislation would be insufficient for a eudaimonic State which has as one of its objectives the creation of the opportunity for the acquisition and exercise of virtue. It would require businesses to be pro-active in forming works councils, recognising and encouraging membership of trade unions and providing for employee representation on boards of directors.⁶⁷ In fact Blowfield and Murray (2011:311) observe that, as a consequence of the pressures of corporate responsibility, the existence of a trade union recognition agreement is a criterion for a particular business's inclusion in ethical investment indices such as FTSE4Good.⁶⁸

As is the case with employees, the eudaimonic State is entitled and obliged to demand that business acts so as not to impede the capability of happiness of its customers. Customers are engaged in the pursuit of happiness. That is, they are concerned with obtaining from businesses the goods and services they perceive as necessary for that purpose. In terms of the responsibility of businesses not to impede the capability of happiness there seem to be two questions that must be answered in respect of the goods and services they offer. Firstly, are they necessary to sufficiently populate a eudaimonic field? Expressed slightly differently, are they such that without them an individual would lack at least the threshold level of one or

⁶⁷ In the United Kingdom in the 1970s it was common for businesses and trade unions to enter into what were termed "closed shop" agreements. Under such an agreement the business stipulated as a condition of employment that all employees were members of the relevant trade union. Although such an arrangement would achieve the union membership that a eudaimonic State would wish to encourage, it would be unacceptable on the grounds that it is not natural, being at best paternalistic or often brutal.

⁶⁸ The role and effectiveness of ethical investment indices will be discussed in chapter 7.

more of the ten central capabilities? Secondly, is there anything about them, intrinsically or in terms of their acquisition or use, that has the potential to prevent an individual from achieving a threshold level of any of the ten central capabilities? If the answer to both these questions is negative there are no concerns for the business in terms of the customers' right to the capability of happiness. In these circumstances the principle that applies is that of *caveat emptor*; it is the responsibility of the customer alone to decide whether or not particular goods or services will contribute to her happiness. However, if the answer to either of the questions is affirmative, it is the responsibility of the business to ensure that the product itself or the manner in which it is marketed are such that no individual is denied a threshold level of any of the ten central capabilities. Note, this is not a requirement for businesses to guarantee customers access to goods that may be necessary in order to sufficiently populate their eudaimonic fields. For example, it is not a requirement that a pharmaceutical company that sells a lifesaving drug, which is extremely expensive to manufacture, at a price which is affordable to all those who need it. In these circumstances it might be considered the responsibility of the State, as part of the creation of the ten Central Capabilities, to subsidise the price of the drugs such that all citizens who need them can afford them. It is the responsibility of business not to impede the capabilities to which the State has guaranteed its citizens the right. In the case of a eudaimonic State this would be the capability of happiness. Furthermore, a eudaimonic State would legislate to protect its citizens' rights in this regard. Such legislation including, *inter alia*, steps to prevent businesses establishing a monopoly in respect of the goods they sell.

In some respects the kinds of legislation being discussed can be relatively straightforward. For example, products that are - actually or potentially - dangerous may deny the first two of the central capabilities, the rights to "life" and "bodily health" (Nussbaum, 2011:33). Consequently, the State might legislate to prevent business selling unsafe goods and require potentially dangerous goods to be sold together with suitable instructions for their safe use. It may also require businesses not to sell potentially dangerous goods to classes of consumers who may be unable to use them safely. For example the legislation in the United Kingdom that prevents businesses from selling knives to people under the age of eighteen.⁶⁹ However, there are some considerations of product safety that are less clear cut. Crane and Matten (2004:268) point out that it is important for consumers of foodstuffs to know the ingredients in their purchases and consequently it is usual for legislation to require that they are disclosed on

⁶⁹ In Scotland there is an exemption permitting people of sixteen years of age to purchase kitchen knives.

packaging. However, simply knowing what a product contains may not be sufficient. To ensure the capability of bodily health it may be necessary for the customer to understand the implications of the mix of ingredients. Consequently, in a eudaimonic State it may be appropriate for there to be legislation requiring, *inter alia*, manufacturers to provide appropriate health related information, of the sort a rational person might require, on product packaging.⁷⁰

Providing information about the particular properties of a product in order that a consumer can make an informed decision about its suitability for her particular purpose is a part of the business activity of “marketing”. Marketing has two purposes in terms of its communication with consumers. Not only does it inform about a products existence and its various properties it also seeks to persuade consumers to proceed with their purchase (Crane and Matten, 2004:271). Marketing, in its persuasive role, has considerable potential to impede an individual’s capability of happiness which the State requires businesses to avoid. In persuading a potential customer to make a purchase a business is essentially attempting to create a belief that the goods in question will contribute to that person’s happiness. Given that in a eudaimonic State it is every citizen’s right to pursue happiness in whatever manner they choose, as long as they do not obstruct the capability of happiness of others, in principle such persuasion is legitimate. However, Packard suggests that those engaged in marketing are attempting to “...manipulate our habits and choices in their favour” and in doing so are “...systematically feeling out our hidden weaknesses and frailties in the hope that they can more efficiently influence our behaviour” (Packard, 1991:12). In our terms, if a particular purchase serves to impede a customer’s capability of happiness, understood as the possession of a sufficiently populated eudaimonic field, attempting to manipulate them in this manner might be culpable. These circumstances might be brought about in two ways: falsely representing a product as contributing to one or more of the central capabilities and causing “hedonistic” goods to crowd out “developmental” goods.⁷¹ As financial services have been widely accused of creating unhappiness over recent years it may be useful to look to this business sector to provide examples of these principles.

Miss-selling payment protection insurance (PPI) is currently a major issue in the United Kingdom. In essence the purpose of PPI is to prevent customers defaulting on their credit repayment commitments by making these payments on their behalf in the event that the

⁷⁰The State may also wish to supplement the information provided by suppliers with its own, more generally targeted, health information such as that related to diet, smoking or alcohol consumption.

⁷¹This process was discussed in chapter 1.

income from their employment ceases due to circumstances such as illness or redundancy. However, it has been a widespread practice to sell these products to customers who it was known were excluded from claiming on grounds such as not being in employment at the point of inception. One of the major reasons for taking out PPI is to avoid the distress and anxiety associated with the inability to satisfy one's financial commitments. Consequently, as "not having one's emotional development blighted by fear and anxiety" is a component of the fifth of the central capabilities (Nussbaum, 2011:33-4), miss-selling PPI can have the consequence of impeding customers' capability of happiness. It might be said that, even though PPI may have been miss sold, a customer possessing it will be free from anxiety simply because of the belief that her financial obligations will be met. Consequently, the business, despite miss selling the PPI, will not have impeded her capability of happiness. However, there will be cases where claims are made which are repudiated by the provider of the PPI policy due to it having been miss sold. This circumstance will undoubtedly cause the customer anxiety and thereby impede his capability of happiness. Furthermore, a number of such repudiations may well lead to a loss of confidence in PPI generally, leading to widespread anxiety.

Another practice common in financial services, particularly in the sub-prime sector, is refinancing, otherwise known as "rolling over". Refinancing involves providing a customer with additional credit in a manner such that any outstanding balances are settled and additional funds made available. This is an expensive way of borrowing but can be useful for customers who require additional finance without increasing their overall outgoings. However, it can be misused, particularly in conjunction with attractively presented merchandise offers, in order to retain a customer in an endless credit transaction. In this event not only does this contribute to the anxiety of being in apparently inescapable debt but it consumes wealth that may be required for other essential purposes such as "...to be adequately nourished [and] to have adequate shelter" (Nussbaum, 2011:33), thereby potentially impeding the second and fifth central capabilities.

Clearly both PPI and refinancing may be beneficial to an individual in terms of their pursuit of happiness but may also have the potential to obstruct the capability of happiness. Enabling the former, whilst avoiding the latter, requires judgement on the part of businesses and their employees. Consequently, where legislation to protect citizens' rights to the capability of happiness cannot, or does not, adequately reflect that judgement, the eudaimonic State will require businesses to hold employees responsible for its correct application. In doing so the business will need to provide employees with the guidance, training and authority necessary

and will ensure that exercising such judgement does not bring them into conflict with any of their other responsibilities. Codes of practice, which are used by many companies, may be a suitable basis for achieving this.

For example of a code of practice used in financial services is provided by the Consumer Credit Association (2012) It defines, *inter alia*, how member businesses will meet their obligations towards their customers, including care in dealing with customers who have special needs. Such codes of practice might be utilised as the basis of the self-assessment process which Goodpaster et al advocate for creating a corporate conscience and will be discussed further later in this chapter.

When we consider Civil Society as a stakeholder we are concerned with protecting the right to the capability of happiness of citizens generally. That is, it concerns matters that relate to citizens *qua* citizen rather than as members of a particular stakeholder constituency such as employee or customer. The right to the capability of happiness applies to individual citizens but the manner in which it can be impeded is such that it applies to each citizen regardless of the relationship, if any, that she has with the business. In this sense it is civil society, as representative of its constituent citizens, that has a stake in the business. Pollution is an example of a potential impediment to the capability of happiness of members of civil society generally as it threatens their capability of “life” and “bodily health”.⁷² Consequently, the eudaimonic State will wish to take steps, through the process of legislation or by a requirement for appropriate codes of practice, to protect civil society from such risks.

In respect of the capability of happiness of suppliers, we are essentially concerned with that of their stakeholders. That is, those whose capability of happiness depends upon the continuing success of the supplying business; for example, its owners, employees and customers. Practices that might be considered to impede the capability of happiness of the stakeholders of suppliers are therefore those that threaten their continued existence, such as late payment of invoices and the use of buying power to force down prices.

Delaying the payment of an invoice is advantageous to a business in terms of improving its cash flow and reducing its borrowing costs. However, doing so has the effect of transferring these financial burdens to the supplier, potentially causing it to become insolvent. Pursuit of minimum purchasing costs is a legitimate objective of business. However, if a business is a major purchaser of the goods or services of a relatively weak supplier it might seek to use its

⁷² Pollution as a negative consequence of business will be considered further in chapter 5.

power to reduce prices to an extent that is financially unsustainable for the supplier. This is a situation that allegedly exists in the UK between farmers and the major supermarkets (Finch, 2008). It is also a major threat to suppliers in developing countries which has been addressed by the Fair Trade Federation's code of practice. The Fair Trade Federation will be considered later in this chapter but for the present it is sufficient to note that the eudaimonic State will wish to prevent businesses engaging in such practices, either by legislation or the adoption of codes of practice.

The considerations that apply in respect of a business's engagement with its suppliers also apply to the relationship with its competitors. Businesses can act towards their competitors in a manner such that the capability of happiness of owners, employees and customers of the competitor are impeded. This can be achieved by denying opportunities for employment, or access to goods necessary for the capability of happiness by either entering into a cartel with competitors or creating a monopoly situation by forcing competitors out of business (Crane and Matten, 2004:321-2). Protection from these threats could be achieved through legislation⁷³ or by requiring businesses to comply with codes of practice that define the manner in which a business will engage with its competitors. In the United Kingdom such codes of practice tend to exist in an *ad hoc* form, dealing mainly with generic matters such as price-fixing (an example of which is that of BAM Construct UK Ltd (2010)). A eudaimonic State, however, would require a standard set of criteria applicable to all businesses which is capable of being adapted to the circumstances of each individual business.

Up to this point I have been considering how business might impede the capability of happiness of its stakeholders and the measures that a eudaimonic State might take in order to address this. However, the eudaimonic State also needs business to contribute to creating the opportunity for the acquisition and exercise of virtue for those engaged with business. I will, therefore, consider how this might be achieved. As has been argued, virtue has three requirements; choice supported by moral education, participation in the natural form of the planner/doer relationship, and proximity to enable an understanding of the circumstances influencing our choices and their consequences.

The idea that we might look to business to contribute to satisfying these requirements is given support by Renouard who describes a "relational capability" which she claims forms the

⁷³ In the United Kingdom legal protection from monopoly situations and business competition issues generally is the responsibility of the Competition and Markets Authority.

“backbone” of corporate social responsibility. Relational capability has the following four components:

- to be integrated into networks.
- to commit oneself to a project within a group, aimed at serving a common good, a social interest; to take part in decision making in a political society.
- to have specific attachments to others: friendship, love.
- to try to value others’ objectives, considering them as ends (Renouard, 2011:90).

It seems that Renouard’s first two components are closely related to the idea of participation. She suggests that, in respect of the first component, companies can be considered as being networks of relationships with stakeholders. The second component involves the manner in which stakeholders might participate in business. It is, she suggests, “...related to the voluntary commitment with others for a specific project concerning a common good or a collective interest” (Renouard, 2011:90). Taken together these two components seem to describe the manner in which a business might provide for participation in a natural planner/doer relationship. Renouard’s third and fourth components seem to be closely related to the conception of proximity as it was considered in Chapter 2. The third component, she claims, “...concerns the feelings for the others in an interpersonal relation, namely, developing friendship and love.” The fourth component builds on this by extending these feelings “...to any interpersonal relation, either direct or mediated by institutions”(2011:91) On this basis we might satisfy the requirements for participation and proximity by enabling employees to engage in a relationship with each of the other stakeholders, or stakeholder groups, in a manner which involves a concern for their mutual wellbeing.

The key to achieving such an outcome lies with the manager. As noted above, in order to be successful in creating the necessary conditions for establishing networks of stakeholders, we require a manager who is sufficiently virtuous to be capable of balancing his fiduciary duties to the owner with the demands of the various stakeholder groups. Bertland (2009:26) points out that such a virtuous manager will “...help to produce an environment in which the stakeholders of a firm are able to thrive.” That is, the manager, through his own example and the planner/doer relationships he establishes, will contribute to the education that individual stakeholders require in order to make the “right” choices. As Bertland puts it, “The manager would have a character that would be able to coordinate the interests of the stakeholders in a

way that each would be able to freely grow and develop their talents.” The wider role of the manager in terms of meeting his fiduciary responsibilities whilst contributing to the capability of happiness of the businesses’ stakeholders will be considered in Chapter 6. For the present I will concentrate on the nature of the planner/doer relationships she must establish in order to contribute to creating the capability of happiness.

These relationships will need to be in the form of a network in which members of each stakeholder group can participate and engage with each other. Employees might be considered to be at the heart of this network. Not only will they be participants in a similar manner to the other stakeholders but they will be instrumental in creating the conditions necessary for participation to occur. That is, either directly, as a part of their respective responsibilities as employees, or indirectly, through the medium of works councils or trades unions, they will be required to contribute to the goals of protecting and contributing to the capability of happiness of all stakeholders. The requirements for achieving this will be discussed in detail in Chapter 6. For the present, therefore, I will consider the manner in which businesses might seek to include the other classes of stakeholder in this network.

Participation by customers may involve, for example, contributing to the design of products, influencing improvements in the working conditions of employees, alignment of business objectives with social goals or formulating codes of practice. That said, the most basic way in which a customer can participate is in terms of boycotting businesses who fail to meet acceptable standards in these areas. Various surveys seem to suggest that consumers are prepared to take part in such activities. For example, in America over seventy five per cent of people surveyed claimed that they would be prepared to avoid products of companies whose working conditions were poor and would pay more for products that were not made in sweatshops (Vogel, 2005:47). In general, seventy per cent suggested that a company’s attitude to its social responsibilities was an important consideration in its buying choices (Crane and Matten, 2004:290).

However, Vogel suggests that in many cases these intentions do not translate into action and even where they do their effect is limited. He points out that surveys indicate that in many cases fewer than ten per cent of consumers modify their purchasing practices as a consequence of the conduct of businesses. Furthermore, relatively few businesses have made significant changes to their practices as a consequence of consumer pressure.

Vogel offers three principal reasons for this: a lack of awareness and a lack of motivation on the part of consumers and the additional costs to businesses associated with implementing CSR policies. He suggests that, "Even for eco-labelled products, many consumers remain uncertain about what the labels imply about the environmental attributes of particular products." This can be viewed in the context of consumer attitudes which suggest that purchasing practices will only be changed if the alternative is no more expensive, is a trusted brand, is of equivalent quality and can be obtained conveniently (Vogel, 2005:48-9). This view is endorsed by Reed and Reed who suggest that many commentators observe that "...consumers do not feel well informed or capable of acting effectively upon their beliefs and/or are more concerned with other issues such as price and convenience" (Reed and Reed, 2009:22).

Clearly, cost is an important issue. If, in our terms, contributing to the capability of happiness of stakeholders involves significant additional costs it is likely that businesses, in pursuit of maximum profit, will seek to pass these on to consumers. If the consequent additional cost of products causes consumers not to purchase them the businesses will be likely to discontinue the practices that generate the costs. This is a serious problem for the eudaimonic State which needs business to contribute to the capability of happiness and will be considered in the next chapter and, in detail, in Chapter 8. However, for the present, I will concentrate on the problem associated with consumer awareness.

Issues of consumer awareness go far beyond considerations of product labelling and concern the conduct of businesses in general. Vogel sums up the position: "Few consumers anywhere have given much thought to where or how products such as appliances, electronic equipment, and automobiles are made" and consequently, "Relatively few consumers appear to be willing to change their purchasing habits in response to corporate practices that do not affect them directly" (Vogel, 2005:52). This suggests that, in terms of the acquisition and exercise of virtue, consumers lack proximity; the ability to understand the consequences of their actions as they relate to the capability of happiness of others.

The solution to the problem of proximity in this context might be found in terms of Renouard's concept of relational capability such that, instead of merely responding to the pressure of consumers, businesses enter into a form of partnership with them. Such a partnership would facilitate customer participation in a natural planner/doer relationship with agreed goals and agreed benefits. The goals would consist in business practices that contribute to the capability of happiness for all stakeholders. Benefits accruing to consumers would be improvements in

product suitability and the happiness they experience by the acquisition and exercise of virtue in respect of their concern for other stakeholders. The business would benefit from an improved reputation and increased sales. Reed and Reed refer to such an arrangement as a “corporate accountability partnership” and describe it as being “...primarily concerned with rule-setting and the related activities of monitoring, reporting and enforcement” (Reed and Reed, 2009:19).⁷⁴ Expressed slightly differently, the requirement for proximity is met by the “transparency” of the business in making public its policies and practices in respect of its engagement with its stakeholders and reporting on and being held formally accountable for its actions in this respect. In this manner customers will be aware of the consequences of purchasing from a particular business in terms of, *inter alia*, its environmental impact, employment conditions or effect on society generally.

However, it is clearly not practical for a business to engage with large numbers of individuals, consequently a business needs to form partnerships with representative bodies such as consumer campaign groups and one means of achieving this is in the context of civil society. When we consider civil society as a stakeholder we are referring to a business’s engagement with groups or organisations effected by its conduct. These collectively are described as “civil society organisations” (CSO) and can be defined as follows:

Civil society organisations include a plethora of pressure groups, non-governmental organisations, charities, religious groups, and other actors that are neither business nor governmental organisations, but which are involved in the promotion of certain interests, causes and/or goals (Crane and Matten, 2004:345).

Crane and Matten (2004:347,353) point out that, unlike employees or customers, CSOs do not generally contribute to business goals, their role is principally to aggregate and represent the interests of citizens, as individual stakeholders. However, this creates problems for businesses wishing to engage with civil society as a stakeholder as it presents them with a wide range of potentially conflicting demands that may not be directly relevant to the activities of individual businesses. However, a solution might be found by noting that the function of CSOs is similar to that of the concept of the “Big Society” that was considered in the previous chapter, exemplified by the Manton Community Alliance.

⁷⁴ Different forms of business partnership and their effectiveness in achieving the goal of a eudaimonic State will be discussed in detail in chapter 8.

It was suggested that the Big Society could be interpreted as involving local communities offering a wide range of opportunities for participation and supported by formal and informal systems of education and personal development; communities which are integrated with the processes of local government through which they enjoy the benefits of formal two-way communication with national government. Such a community could be seen as a single body presenting the requirements of individual CSOs in a unified manner which is moderated by its connections with local and national government⁷⁵ and with whom businesses might enter some form of partnership. This would effectively create a system of regulation which would stipulate codes of practice specifying the manner in which a business will engage with various groups within the community. The business would report on its performance in respect of each element of the code and in this way the transparency required by the principle of proximity would be provided.

An example of such a code of practice is that of the Ethical Trade Initiative in respect of workplace practices. This specifies detailed standards in respect of areas such as safe working conditions, working hours and discrimination and as such could be considered to be safeguarding an employee's capability of happiness. Furthermore, the Ethical Trade Initiative is intended to provide its partner businesses with a code of practice which they undertake to ensure is complied with by all their suppliers (Ethical Trading Initiative, 2013). In this way a business provides members of the community with some of the conditions of proximity necessary for the capability of virtue by making them aware of the circumstances and treatment of workers in distant locations. It also contributes to relational capability by enabling businesses to involve their suppliers in the stakeholder network.⁷⁶

Businesses might further assist the eudaimonic State in its goal of creating the capability of happiness by establishing what Reed and Reed (2009:23) call a "social economy partnership" (SEP) with local communities. They explain that, "Rather than trying to restrain and redirect corporate behaviour, SEPs promote alternatives to traditional business corporations". The purpose of such a partnership is to support the development of new small-scale business enterprises, such as cooperatives, that have as their principal objective a contribution to the

⁷⁵ Given the global nature of business and the related issues of CSR, the integration of local communities with local and national government might be extended to involvement with, say, the United Nations. This possibility will be discussed further in the conclusion to this thesis.

⁷⁶ These matters will be considered in greater detail in chapter 8.

needs of their community not the maximisation of profit.⁷⁷ Reed and Reed suggest that there are two main ways in which business can contribute to these partnerships. Firstly, they can provide the expertise lacked by the enterprises, in areas such as technology, administration, marketing or finance. In providing this support they also give their employees the opportunity to experience the circumstances of community members directly and to participate in the creation of the member's capability of happiness. By participating in this way employees are also developing and exercising virtue which contributes to their own happiness.

The second major form of contribution that businesses can make is by providing small enterprises with access to a larger market. Reed and Reed refer to the Fair Trade Federation as an example of a particularly successful SEP. As the Federation explains, "Fair Trade Federation members have one primary purpose: to support farmers and artisans in developing countries through the practice of fair trade" (Fair Trade Federation, 2013). In principle the Federation is similar to the Ethical Trade Initiative in that it establishes a code of practice which partner businesses must observe. The Fair Trade ethos is based on nine principles, which include: "Create Opportunities for Economically and Socially Marginalized Producers; Develop Transparent and Accountable Relationships; Pay Promptly and Fairly; Cultivate Environmental Stewardship; Respect Cultural Identity" (Fair Trade Federation, 2013).

Although specifically intended to apply to partnerships with enterprises in developing countries, these principles might be considered to be appropriate as the basis of a natural planner/producer relationship between a business and its suppliers in any eudaimonic State. For example, as mentioned earlier, there is conflict in the United Kingdom between farmers and the major supermarkets concerning the prices the latter are prepared to pay for the goods the former supply (Finch, 2008). If the supermarkets were to participate in partnerships with the local communities who represent the interests of farmers such conflicts might be avoided. The capability of happiness of the farmers would be protected and a contribution to the capability of happiness of all participants in the partnership would be made. As a part of such a partnership the supermarkets would undertake to comply with a code of practice similar to that of the Fair Trade Federation. Furthermore, their compliance would be audited and

⁷⁷ It can be argued that such business enterprises are not businesses at all as they do not have the sole purpose of maximising owner value. This argument will be considered in detail in chapter 5.

publically reported in order to produce the conditions of proximity required by all participants as a component of their capability of happiness.⁷⁸

The principle that applies to suppliers could also be applied to competitors through the medium of trade associations. These are associations of businesses who are engaged in the same general field of activity and who can thus be considered to be competitors. Such associations frequently have codes of practice which determine the basis of the relationship member companies have towards each other. The purpose of such associations is to “promote the interests of their members, create conditions in which the sector can prosper and work together for the general good” (The Times 100, 2013). Once again, membership of such trade associations and compliance with their codes of practice might be included in the requirements of participation with local communities.

In conclusion, if a eudaimonic State is to achieve its objective of creating the capability of happiness for all citizens it requires businesses to be conducted in a particular manner. Firstly and most fundamentally, it demands that business refrain from any activities that impede the capability of happiness. Where appropriate, legislation ought to be employed in order to provide suitable protection against a business’s incursion into the right to the capability of happiness. However, where this is not the case for reasons of, say, ambiguity or omission, businesses will be required to exercise judgement so as not to deny any citizen that right. Secondly, the eudaimonic State needs businesses to create the conditions necessary for those citizens directly engaged with business to have the opportunity of acquiring and exercising virtue. Stakeholder theory suggests a paradigm of business that meets these requirements which we might describe as “eudaimonic”. A eudaimonic business will create partnerships with local communities in which stakeholders have the opportunity to participate; their common goal being that of protecting and promoting their own happiness and the capability of happiness of the others. The basis of these partnerships might be a matrix of codes of practice defining how a business will engage with all of its stakeholders. In order to achieve the condition of proximity required for virtue the codes of practice will be capable of accommodating the different needs of individual communities and will enable a company’s performance to be measured against them and publically reported. In this way those engaged

⁷⁸ The potential of Social Enterprise Partnerships for contributing to the creation of the capability of happiness will be considered in detail in chapter 8.

with, or wishing to become engaged with, a particular business are able to understand the consequences of their actions in so doing.⁷⁹

However, in becoming eudaimonic a business must accept significant responsibilities and the legitimacy of doing this can be challenged. Many commentators argue that, beyond obeying the law, the only responsibility a business has is to its owner. Some go further and claim that taking on such responsibilities may constitute dishonesty. These arguments will be discussed in detail in the next chapter.

⁷⁹ The basis of such an arrangement will be considered in detail in chapter 8.

Chapter 5

The Purpose of Business – An Owner’s Perspective

In 1970 the New York Times published a now infamous article by Milton Friedman in which he controversially claimed that:⁸⁰

...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 or fraud (Friedman, 1970).

Blowfield and Murray (2011:26,49) point out that although Friedman’s argument is robustly made many commentators reject it completely whilst others claim that although it may once have been accurate it is now out of date. However, there are some who maintain that Friedman’s position is essentially correct and two of the most prominent of these are Michael Jensen and Elaine Sternberg. Jensen and Sternberg have developed rigorous arguments in support of their claims. In this chapter I will examine the arguments advanced by these three champions of what is often called shareholder theory and relate them to the idea of a “eudaimonic business” which I considered in the previous chapter. I will suggest that shareholder theory can be described as a form of instrumental stakeholder theory and as such might be considered incompatible with normative stakeholder theory on which the concept of a eudaimonic business is based⁸¹. I will argue that the principle obstacle to reconciling these two positions is the instrumentalist insistence on the maximisation of financial value and I will attempt to demonstrate that this is a contingent rather than necessary property of business. I will conclude by attempting to describe the circumstances in which reconciliation between normative and instrumental stakeholder theorists might be achieved by appealing to the recently developed concept of Corporate Citizenship.

Friedman, Jensen and Sternberg might be said to offer three different perspectives on the responsibilities of business and hence the manner in which business ought to be conducted.

⁸⁰ Friedman’s quotation was taken from his book *Capitalism and Freedom* (1962).

⁸¹ For a description of the history of the Stakeholder v Shareholder debate together with an endorsement of the primacy of shareholder value maximisation on grounds of pragmatism see Sundaram and Inkpen (2004).

Friedman's perspective concerns issues of taxation and the responsibilities of government and might therefore be considered to be economic and foundational. Jensen's arguments are also based on principles of economics but they are fundamentally pragmatic being concerned with the strategic issues facing corporate executives. This concern for the problems faced by those responsible for the conduct of business is also at the heart of Sternberg's arguments but her perspective is very much philosophical. In particular she relies heavily on the Aristotelian conception of definitions. However, in the previous chapter I suggested that the eudaimonic State requires business to be conducted in a particular manner, which is by enabling all stakeholders to participate in partnerships between business and local communities. Consequently I will attempt to establish how the arguments advanced by these three protagonists bear on this requirement, beginning with Friedman.

Friedman (1970) begins by pointing out that businesses are not the sort of things that have responsibilities and that any responsibilities that do arise are those owed by executives to those who employ them, that is the owners of the business.⁸² Friedman goes on to claim that the responsibility executives have is to manage their businesses in accordance with the wishes of the owners, "...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 customs" (Friedman, 1970). There are two points to note here. Firstly, Friedman is implicitly conceding that although most owners will require their business to pursue maximum financial value there may be some that do not. Secondly, to the extent that the law and ethical practices embody policies to protect the capability of happiness, as they would be in a eudaimonic State, business must be conducted so as to respect those laws and practices.

Friedman goes on to consider the sort of social goals that executives may feel they have a responsibility to pursue. The examples he gives, all of which result in less than the maximum financial value accruing to the owners, are keeping prices low in order to prevent inflation, reducing pollution below statutory limits in order to improve the environment, and employing the "hard-core unemployed" rather than better qualified workers in order to reduce poverty.

Friedman claims that using corporate assets in order to pursue such goals is a form of taxation, not just on the owners but also on employees and customers in terms of the consequent lower wages and higher prices that the increased costs would bring about. He condemns such actions on the grounds that they are illegitimate in that the raising and spending of tax

⁸² Friedman is concerned with corporate executives because he believes that corporations are the principle targets of concern regarding social responsibility.

revenue is the role of government alone. One cause of its illegitimacy is that the basis of taxation is agreed with government through the democratic process and the business executive is not entitled to override this. However, it might be argued that, within the boundaries of a business, consent from the owner to the pursuit of social goals, implicitly supported by employees and customers in terms of their continued loyalty to the business, is sufficiently democratic to render it legitimate.

However, Friedman has another reason for not pursuing such goals that seems more telling. He argues that business executives lack the knowledge and expertise to be capable of using the business's resources appropriately; making the point that if the executive "...is told that he must contribute to fighting inflation, how is he to know what action of his will contribute to that end?" Friedman points out that it may be that the action the executive perceives as necessary will have adverse consequences elsewhere in the economy and only government has a sufficiently broad understanding of the situation to be able to mitigate that risk.

Friedman concludes by opening the door to the possibility of stakeholding in its instrumental form. He suggests that if by exercising social responsibility businesses generate goodwill they are justified in incurring the expense of so doing to the extent that this contributes to the maximisation of profits. However, his endorsement of this practice is not enthusiastic; he describes it as "hypocritical window-dressing" which he reluctantly accepts but admires those "...corporations who disdain such tactics as approaching fraud"(Friedman, 1970). In terms of planner/owner relationships, this suggests that Friedman acknowledges that corporations which take this instrumental approach may be exploitive.

Having explicated the main points of Friedman's argument I will attempt to evaluate their implications in respect of the need the eudaimonic State has for business to engage with its shareholders by entering into partnerships with local communities. Friedman makes four basic claims:

1. Most owners require their businesses to generate the maximum financial value possible.
2. Business executives who pursue social goals that reduce the financial value available are behaving illegitimately.
3. Even if owners wish to pursue social goals they and their executives lack the knowledge and expertise to enable them to do so.

4. If owners or executives pursue social goals in order to maximise financial value they are in danger of acting fraudulently.

The first two points are the basis of Goodpaster's first paradox.⁸³ Expressed in the terms that I have defended in this thesis, the State needs businesses to be eudaimonic, that is to form partnerships with local communities, but it is illegitimate for executives to attempt to create such a business. However, all Friedman is saying is that most owners require maximum financial value from their businesses leaving the possibility that at least some owners may wish their businesses to be eudaimonic, thereby potentially bypassing this paradox. The third point, however, seems to block this route by claiming that only government has the ability and legitimacy to establish which social goals are important and the manner in which they should be pursued. For a "standard" business this point may be decisive but for a eudaimonic business it is avoidable by virtue of the manner in which, in a eudaimonic State, local communities are integrated with local and national government.

In Chapter 3 I suggested that in a eudaimonic State there are two way communications between local communities and government with the purpose of, *inter alia*, ensuring that the activities of communities are compatible with national strategic needs. Consequently in agreeing the goals that form the basis of a partnership the eudaimonic business is effectively being guided by government and, consequently, for such a business, Friedman's objection carries no weight. Friedman's final point concerns the danger that business might espouse social responsibility in a fraudulent manner in order to gain competitive advantage. However, it should be noted that a eudaimonic business will only enter into "natural" planner/doer relationships whereby all parties voluntarily participate on the basis of a clear understanding of the goals that are to be pursued and the benefits that they will obtain if they are achieved. Under these circumstances the "hypocritical window-dressing" that Friedman deplores will not arise.

In summary, although Friedman does not believe that many owners will wish to own eudaimonic businesses he offers no objections that, within the context of a eudaimonic State, might prevent them from legitimately doing so. Jensen, though, develops and strengthens Friedman's position introducing some additional obstacles that the eudaimonic business must overcome.

⁸³ Goodpaster's two paradoxes were discussed in chapter 4.

Jensen begins by introducing “...a (somewhat) new corporate objective function...” which he calls “...enlightened value maximisation” (Jensen, 2002:67).⁸⁴ This concept is based on two principles: that a business should have a “single-valued” objective and that objective should be the maximisation of financial value. He also suggests that enlightened value maximisation is identical with what he calls “enlightened stakeholder theory”. The “enlightenment” derives from two claims.

Firstly, that financial value maximisation is not possible if businesses do not take into account the demands of stakeholders and obtain their support in pursuit of business objectives. However, as stakeholders may generate competing demands business should aim to satisfy those that contribute most to financial value, “...because no constituency can be given full satisfaction if the firm is to flourish and survive” (Jensen, 2002:77). On this basis it appears that enlightened stakeholder theory is essentially the same as the instrumental stakeholder theory which, as noted in the last chapter, was originally described by Freeman.

Jensen’s second claim, though, takes the theory a stage further. Drawing on “...200 years’ worth of work in economics and finance...” he argues that maximising financial value “...leads under most conditions to the maximisation of social welfare” (2002:70,71). Enlightened stakeholder theory therefore treats stakeholders as being more than merely instrumental; it is concerned for their welfare. However, this concern only extends as far as is permitted by the requirement to maximise financial value and consequently falls short of the requirements of normative stakeholder theory on which the conception of a eudaimonic business that I have defended is based. If, however, Jensen’s claim that maximising financial value tends to maximise social welfare is true it may be that normative stakeholder theory is unnecessary as the basis of eudaimonic businesses. I will therefore attempt to establish whether or not this is true.

Jensen explains that his claim that maximising financial value generally maximises social welfare is based on the idea of a market in which there are no monopolies or externalities and that the responsibility for creating these conditions “...is the legitimate domain of the government in its rule-setting function” (Jensen, 2002:77). The question of externalities will be discussed later in this chapter and in Chapter 8 but for the present I will assume that they do not exist. In these circumstances, using profit maximisation as a measure of financial value maximisation in a simplified conception of the market in which cash flows can be ignored, Jensen argues that:

⁸⁴ See Sunderam and Inkpen (2004) for a defence and elaboration of this objective.

In this simple situation, a company that takes inputs out of the economy and puts its output of goods and services back into the economy increases aggregate welfare if the prices at which it sells the goods more than cover the costs it incurs in purchasing the inputs (including, of course, the cost of the capital the firm is using). Clearly, the firm should expand its output as long as an additional dollar of resources taken out of the economy is valued by the consumers of the incremental product at more than a dollar (Jensen, 2002:71).

Jensen points out that this is because the cost of inputs and the price of outputs represent their value, suppliers would not sell or consumers buy if this were not the case. Consequently, if the latter exceeds the former, the production process adds value. The value added represents the business's contribution to social welfare but the excess of output price over input cost also equates to profit and therefore maximising profit maximises the contribution to social welfare.

An evaluation of this argument is beyond the scope of this enquiry so I will assume that it does stand up to scrutiny and examine its implications in terms of the capability of happiness.⁸⁵ Clearly, the conception of welfare to which Jensen refers is one of desire satisfaction. That is, it relates to happiness in terms of providing the goods and services which consumers perceive as being necessary for achieving that end. In our terms these are the goods we require to populate our eudaimonic fields. However, the capability of happiness also requires the possession of virtue in order to create the eudaimonic field, which in turn requires participation and proximity. Consequently, the welfare to which Jensen refers falls short of that which the eudaimonic State requires from business. As it is reasonable to assume that facilitating participation incurs a cost, it must be accepted that businesses must either refrain from facilitating the conditions necessary for the acquisition and exercise of virtue or they must accept less than maximum profit.

Jensen might respond by claiming that facilitation of the conditions required for virtue can be considered as an output and if consumers value it more highly than the cost of creating it there would be no conflict with profit maximisation. However, as was observed in the previous chapter, Vogel (2005) points out that virtue may not be valued as highly as consumer surveys suggest. When it comes to purchasing decisions price is frequently more important than considerations of whether or not an item has been produced in a sweatshop or under

⁸⁵ I do not propose to question Jensen's claim as it is based on established economic theory and does not materially affect my argument.

environmentally damaging conditions. Consequently, it seems that the best that can be said of enlightened stakeholder theory is that it is compatible with the capability of happiness.

However, as the eudaimonic State needs to rely on business contributing to the capability of happiness, it appears that only normative stakeholder theory, on which the concept of a eudaimonic business is based, provides the necessary guidance. Jensen contests this, claiming that normative stakeholder theory is unacceptable as it is damaging to business. This is, he suggests, for three reasons: firstly, the theory requires businesses to have multiple objectives and it is not possible to maximise more than one; secondly, businesses will struggle to survive if they do not pursue maximum financial value; thirdly, internal control is weakened by giving executives a free hand in determining which goals they choose to pursue (Jensen, 2002:68). If the concept of a eudaimonic business is to stand it needs to answer these charges.

The basis of Jensen's first objection is his claim that "It is logically impossible to maximise in more than one dimension at the same time unless the dimensions are what are known as 'monotonic transformations' of one another" (Jensen, 2002:68). Once again an examination of Jensen's substantive claim is beyond my scope here. However, it is necessary to consider what it is for something to be a dimension. The example Jensen gives concerns current-year profit and market share where increasing the latter leads to an increase in the former. However, Jensen points out that there may be a point, possibly due to the costs of advertising and research and development, at which increasing market share leads to falling profit. That is, it is not possible to maximise both; to maximise one is to accept a limit on the other. This leads to Jensen's argument that it is profit - or more generally total market value⁸⁶ - that should be maximised because of his belief that, as I noted above, this will tend to lead to the maximisation of social welfare.

However, as noted above Jensen's conception of social welfare does not include the opportunity for participation and proximity. The costs associated with providing these opportunities might be compared with the costs of advertising and research and development associated with market share and as such are incompatible with maximising financial value. That is, it is not possible to maximise financial value and maximise the opportunities for participation and proximity: but are these opportunities things that need to be maximised?

⁸⁶ Jensen defines total market value as "the sum of the market values of the equity, debt and any other contingent claims outstanding on the firm" and suggests that this provides the best guide for managers in evaluating trade-offs (2002:70).

A business may well set a market share which, possibly for some strategic reason, it requires and, accepting that as a constraint, still pursue maximum profit. Might this not also apply to participation and proximity? A business might decide that it wishes to contribute to the capability of happiness by facilitating a specific degree of participation and proximity. The cost associated with this would reduce the maximum profit available, in the same manner as any other fixed cost, but net profit, in simple terms revenue less cost, could still be maximised by increasing revenue or decreasing variable costs.

Treating the contribution to happiness as a cost that business factors into its measure of profit leads into Jensen's second objection, that seeking less than maximum financial value represents a threat to a business's survival. It also invites the question "why should a business incur the costs of contributing to the capability of happiness?". I will attempt to address this question later in this chapter, but for now I will consider the implications of accepting less than the maximum financial value on the long term prospects of a business. As was suggested at the beginning of Chapter 4, maximising financial value may not be essential for business; rather, it seems to arise out of uncertainty about how much financial value a business needs. Anxiety about the future in terms of financial challenges to the business and the likely needs of its owner or owners make it prudent to seek to maximise its financial value even to the extent that this may exceed, by a substantial margin, that which is actually necessary for survival. Consequently, accepting the costs of contributing to the capability of happiness may result in anxiety to the owner of a business or to those who have a stake in it, possibly impeding their capability of happiness. This paradox, that the eudaimonic State, in attempting to enlist the assistance of business in pursuit of its principal goal may frustrate its purpose, might be avoided by appeal to the idea of an externality.

"Externalities are *indirect* effects of consumption or production activity, that is, effects on agents other than the originator of such activity which do not work through the price system" (Laffont, 2008:original emphasis). The most common example, the one which Jensen gives and to which Friedman refers, is pollution. A business may choose to manufacture its products in such a way that causes air or water pollution without having to pay the price represented by the loss of air or water quality to those citizens who suffer the consequent effects (Jensen, 2002:70). This results in the amount of social welfare represented by a given profit margin to be overvalued and, if the pollution is extensive, that margin may become negative. Jensen argues that dealing with unpaid externalities is the responsibility of government and that businesses that become involved "...either will be eliminated by competitors who choose not

to be so civic minded, or will survive only by consuming their economic rents in this manner” (Jensen, 2002:77-8). This appears to be the conventional view and can lead to a market in the right to pollute in which, “Before producing, the firm must buy from the consumer the right to pollute” under which circumstances, if the transaction is truly competitive, the externality will no longer exist (Laffont, 2008). However the consumer may not value the right appropriately and consequently mediation by the State may be necessary. That is, “The likely strategic behaviour by agents on markets of pollution rights makes taxation of externalities the most common policy tool. The polluter must then pay for each unit of a polluting activity a tax which equals the marginal cost imposed by this activity on the other agents” (Laffont, 2008). In a sense the State might be considered as an agent for its citizens in securing a competitive price that fully compensates for the cost to them of the externality.

Pollution is an example of a negative externality, that is, one in respect of which the indirect effect of production is detrimental to the interests of other agents. However, externalities can result in benefits to the other agents in which case the creator of the externality ought to be subsidised for her unpaid contribution to their welfare (Laffont, 2008). It might be assumed that a similar principle to the market in pollution rights is the appropriate one to adopt. Consequently, on this view, if a positive externality occurs it is the responsibility of the State, as agent for its citizens, to establish a competitive price representing the benefit of that externality and to pay that price possibly in the form of tax allowances or subsidies.

If a business chooses to conduct itself in such a way that the production of the goods and services it sells creates the opportunity for participation and proximity for its stakeholders it might be considered to be creating a positive externality. The benefit to the stakeholders is the ability to acquire and exercise virtue but because, as has been noted, they may be inclined to undervalue this benefit it is necessary for the State to mediate, through fiscal measures, to ensure that the true value is paid. However, the State requires a complete understanding of the economy and confidence that businesses are not using private information to act strategically if they are to set the appropriate level of compensation (Laffont, 2008). Whilst a perfect understanding of the economy may not be possible, as Friedman suggested, government is in the best position to understand the implications of business activity in terms of its impact on the economy, or, in our terms, the contribution to the capability of happiness. The State, therefore, needs to be confident that the actions of the business are such that they justify the value that the State ascribes to the positive externality that the business creates in

terms of the social goals it chooses to pursue. This possibility lies at the heart of Jensen's third objection to normative stakeholder theory.

Jensen's objection is not to businesses seeking to obtain the best value they can, this is consistent with maximising financial value, but to executives acting strategically to pursue their own ends to the detriment of the business. "[Stakeholder theory] allows managers and directors to devote the firm's resources to their own favourite causes – the environment, arts, cities, medical research – without being held accountable for the effect of such expenditures on firm value" (Jensen, 2002:74). Although not acknowledged by Jensen, as it was by Friedman, this situation creates the possibility for the State that these "favourite causes" do not add value to the externality that the State is paying for in terms of creating opportunities for participation and proximity. Jensen's solution to the problem as he sees it is a form of scorecard which measures the contribution of a particular initiative to the long-term market value of the firm. This forms the basis of how any employee is rewarded or penalised and as such ensures that any initiative concerned with social responsibility is limited to that which contributes to an increase in long-term market value.

The idea of a scorecard is not new. Norton and Kaplan have developed a type of scorecard that involves the principle that a business will have goals other than financial maximisation. This scorecard seeks to balance a business's financial and non-financial goals in the context of its overall strategy. However, as might be expected, Norton and Kaplan's "Balanced Scorecard", which recognises a business's need to accommodate socially responsible initiatives, is criticised by Jensen because it contains measures that pursue social goals but which are not necessarily related to maximising financial value, and which he describes as "...the managerial equivalent of stakeholder theory" (Jensen, 2002:79). That is, Jensen equates Norton and Kaplan's balanced scorecard approach to an application of normative stakeholder theory, which he rejects.

The problem that Jensen perceives might be avoided by adopting a form of balanced scorecard that involves an arrangement similar to that suggested earlier to address Friedman's claim that executives lack the ability to make judgements on the effectiveness of socially directed initiatives. The scorecard would have, say, two components. The first component would be a scorecard, developed internally, along the lines proposed by Jensen to ensure that only those initiatives that contributed to long-term market value were permitted. The second component would be a scorecard that evaluated any initiatives rejected by the first scorecard but in this case the evaluation would be in terms of their contribution to the capability of happiness. This

scorecard would be developed by the business in partnership with the local communities with whom it was engaged and, through the mechanism of two way communication with government, would determine the rewards that the business would receive from government in the form of, *inter alia*, tax allowances and subsidies. The link that Jensen requires between social responsibility and contribution to maximising financial value would thereby be maintained.

To summarise, it might be said that Jensen's objections to normative stakeholder theory, which, as I have suggested, form the basis of the manner in which the eudaimonic State needs business to be conducted, might be avoided by the creation of a market in externalities. The externalities in question involve businesses' indirect creation of opportunities for participation and proximity which are valued in accordance with a form of scorecard agreed in partnership with local communities and paid for by fiscal adjustments. Such a solution, however, may be in conflict with arguments advanced by Sternberg and this possibility should be investigated.

In paying for externalities the State is not necessarily covering the costs to the business of creating the externality. That is, the business is enabled to contribute to the capability of happiness but may still have to accept less than the maximum financial value that would have been available to it had it chosen not to create the externality. Even if the payment does reflect the marginal cost, the survival of the business may not be threatened but neither is there any additional contribution to financial value. Consequently, if businesses are to become involved in the market for such externalities it may be claimed that they have a purpose other than the maximisation of financial value.

It is this claim that Sternberg (2000) denies. She argues that it is illegitimate for business to have any purpose other than maximising long-term owner value. Up to this point the proscription of other purposes has been conditional on them being one or some combination of: against the wishes of the owner; beyond the competence of the executives involved; or a threat to the survival of the business. These conditions, I have shown, can be avoided whilst pursuing goals other than maximum financial value. However, Sternberg's position is categorical: even if the owner desires it, a business must not pursue anything other than long-term owner value expressed purely in financial terms.

Whilst Jensen's arguments were supported largely by economic theory, Sternberg "...calls upon a comprehensive, naturalistic, philosophical framework..." which is based on "...the collected works of Aristotle, especially the *Nicomachean Ethics*, *Metaphysics*, *Politics*, *De*

Anima, and the *Posterior Analytics*” (Sternberg, 2000:3, note 5). She observes that the Aristotelian approach she takes is teleological; that is, being concerned with goals and purposes and which involves the principle that a good thing is one that fulfils its purpose well. She claims that this principle leads to the conclusion that the (ethically) correct conduct of business is critically dependent upon a clear understanding of the purpose of business. Consequently, having the wrong goal, failing to understand why such a goal is wrong and pursuing the right goal but in the wrong way are serious errors of judgement which she describes as instances of “teleopathy” (Sternberg, 2000:4).

In order to avoid teleopathy therefore a precise, unambiguous, conception of the purpose of business is required such that, to use the words of Aristotle, which Sternberg cites from the *Nicomachean Ethics*, we will “...like archers who have a mark to aim at, be more likely to hit upon what is right” (1094a24). Expressed differently, a definition of business is required that distinguishes it from other forms of activity that have the appearance of business but which do not have its purpose.

Business, as a product of man’s endeavour, might be considered to be an artefact and, for Aristotle, an artificial kind is defined by its purpose. Consequently, as Sternberg observes, if we can specify business’s purpose sufficiently narrowly we have effectively defined it. Sternberg offers a defining purpose which she claims achieves that objective which is “...*maximising owner value over the long term by selling goods or services*” (Sternberg, 2000:32). She claims that her definition needs to be narrow in order to exclude those activities whose purposes might be confused with that of business. She suggests that although business contributes to public good⁸⁷ this cannot be its defining purpose because medicine and education also have this purpose and they are clearly not businesses.⁸⁸ She observes that the goods and services that a business sells are a means not an end, but businesses are often confused with organisations who have those means as ends. By way of clarification, Sternberg makes the point that “...except incidentally, [business is not] an agency of government or social policy” (2000:36). This point seems to exclude the type of business that chooses to contribute to the capability of happiness. I will therefore examine the reasons Sternberg gives in support of her definition.

⁸⁷ This point is consistent with Jensen’s claim that maximising profit tends to maximise public welfare.

⁸⁸ There undoubtedly are businesses that provide welfare and education but Sternberg would argue that these represent the goods and services that are sold with the purpose of maximising long-term owner value.

Sternberg claims that “Failure to differentiate [business from non-business] clearly is responsible for some of the seemingly most fundamental and intractable problems of business ethics” (2000:36-7). She states that her definition has to contain certain terms - and only those terms - in order to achieve clarity and explains and thereby defends each in detail. As observed above, maximising long-term owner value is the goal that Sternberg claims that businesses must have and the sale of goods and services are the means by which they achieve this. That is, they are the material component of her definition. She makes the point that “Business is not about maximising long-term owner value through theft, or alchemy, or increasing or preserving personal assets” (2000:42). Presumably, on this count, it is not through the creation of externalities either because, as I have claimed, even if creating externalities could be described as a service it does not contribute to maximising long-term owner value. Creating externalities is merely a means by which a business can contribute to the capability of happiness without *reducing* long-term owner value, unless the term “owner value” involves a non-financial element. If an owner values the opportunity to contribute to the capability of happiness doing so might be said to maximise her long-term value by adding non-financial value to the financial value her business achieves.

However, Sternberg rejects this possibility. She points out that “‘Value’ is what philosophers call ‘systematically ambiguous’: it can mean different things in different contexts” (2000:43). In the context of economics, she claims, value is purely a financial concept; it does not have the ethical content involved in valuing the capability of happiness. Sternberg makes the point that owners are entitled to pursue non-financial goals if they so wish, but, “To the extent that they pursue something other than maximum long-term owner value, however, they are simply not engaging in business” (2000:45). This is an important step in Sternberg’s argument and one with which some may feel uncomfortable. This will be considered in more detail shortly but for the present it should be noted that, as it stands, it firmly denies the legitimacy of business, *qua* business, in assisting the eudaimonic State to create the capability of happiness.⁸⁹

Having established that the concept of owner value is purely financial Sternberg considers which of the many possible financial measures are appropriate. She considers wealth, assets, revenues, profits, added value and share price, rejecting each on the grounds that they are either not sufficient or are inappropriate as business’s ultimate goal. She finally settles on discounted future cash flows arising from dividend distributions and capital growth (2000:48).

⁸⁹ On Sternberg’s account a business “as a legal entity” could pursue social goals but to the extent that it does so it is not conducting business.

This naturally leads to a consideration of who counts as the owner to whom the financial value accrues. Owners, she claims, are those whose property the business is, including within this description shareholders but excluding all other stakeholders (2000:49-53).

The final two elements of Sternberg's definition which require justification are "long-term" and "maximum". She observes that "...inclusion of the words 'long-term' is, strictly speaking, superfluous: a thing's value normally reflects its potential" (2000:53). However, Sternberg offers two reasons for retaining "long term" in her account. Firstly, business initiatives often have long-term effects, the judgement of which requires a long term perspective. Secondly, business is not a single-event activity; it is generally accepted as being carried out over an extended period of time.

Sternberg's claim that the long-term value must be the maximum available is based on three arguments. The first is that if businesses were merely required to increase value we could not distinguish them from some classes of non-business. For example, "Hobbyists making casual sales would constitute businesses, as would families selling their houses" (2000:54-5). Secondly, without a requirement to maximise it would not be possible to decide which of two mutually exclusive projects should be implemented. Finally, "Long-term owner value is likely to be maximised when business owners pursue their enlightened self-interest" (2000:56), a claim which is supported by the idea which I considered earlier that maximisation may be a rational response to anxiety stemming from uncertainty over what constitutes sufficiency.⁹⁰

Having clarified the terms of Sternberg's defining purpose of business I am in a position to understand the obstacle it represents to the satisfaction of a eudaimonic State's need for business to contribute to the creation of the capability of happiness. It seems to do so by making it illegitimate for business to choose to create the circumstances necessary to promote participation and proximity in the manner required by the eudaimonic State. However, I have argued elsewhere (Seel, 2001) that Sternberg's definition is framed more narrowly than is required for differentiating what is generally regarded as business from what is not. As noted earlier, on Sternberg's account, if an owner decides to seek less than the maximum financial value from his business it simply ceases to be a business. However, this seems to exclude some

⁹⁰ Enlightened self-interest might be compared with the concept of enlightened stakeholder theory discussed in the previous chapter. In both cases the enlightenment comes from having a clear understanding of the likely consequences of a particular course of action. In the case of self-interest it is an understanding of which of the owner's personal goals are important and how her business might promote these. In the case of stakeholder theory it is an understanding of which stakeholders are important in terms of achieving or obstructing business goals.

entities that we would normally consider to be businesses. Nelson suggests that the corner newsagent may be such a case:

“...maybe he tries to maximise his own long-term value, but maybe he doesn’t. Maybe he works just hard enough to support himself and his family, without trying to wring the last penny out of his enterprise. On Sternberg’s view, either he is a defective businessman or no businessman at all. But this has an odd ring to it. If anyone is a businessman, surely the corner newsagent is” (Nelson, 1998:93).

Nelson questions why it is necessary for a definition of business to differentiate between undertakings that seek to maximise and those that do not but are none the less very profitable. It is possible, therefore, that there is something wrong with Sternberg’s definition.

I have argued that although Sternberg claims that her overall approach is essentially Aristotelian the method she uses in establishing her definition may not be (Seel, 2001:19-36).⁹¹ The Aristotelian approach involves two stages. Firstly, we establish a nominal definition. This is the definition of the entity represented by the commonly held views about what it is. Secondly, we turn that nominal definition into a real definition by attempting to identify those properties which are essential to it and which explain the commonly held views. It appears that Sternberg’s definition is either a real definition derived from an undisclosed nominal definition or, as seems more likely, a stipulative definition which as Nelson suggests “...makes up in sharpness what it loses in intuitive appeal...” (1998:96).

In order to test this I will attempt to establish an alternative definition of business using the accepted Aristotelian method. I begin with a nominal definition which seems to be in accordance with generally held views such as, “sells goods and services, makes a profit and, is the property of an owner or owners”. I then compare this with the types of non-business which Sternberg requires to be excluded, such as those that have as their defining purpose, “...promoting the public good, fostering employee wellbeing, providing full employment, and serving the interests of customers, managers or the community.” Whilst Sternberg’s definition clearly serves to differentiate business from these organisations so does the requirement of the nominal definition to make a profit by selling goods and services. A similar principle applies to the charities, churches, schools, clubs or agents of government that Sternberg suggests might be confused with business. They can all be excluded on the grounds that they do not sell goods and services on behalf of owners for whom they aim to make profits.

⁹¹ This part of the chapter is based on my MA thesis.

Having established that the nominal definition seems to do the job required of it the next step is to form the real definition by identifying the essential properties of a business. The sale of goods and services appears in both Sternberg's definition and my nominal definition and might be said to explain other properties of businesses such as having customers. Selling goods and services is thus a plausible essential property and therefore should be included in the real definition. Next I can compare the nominal requirement for generating profits with Sternberg's requirement for maximising long-term owner value, examining each of its four components in turn. As I have noted, Sternberg requires value to be financial in the business context and in that context profit meets that criterion. However, Sternberg rejects profit as an appropriate measure on two counts: that it can be easily manipulated and that it encourages short-termism. Its ease of manipulation is a matter for internal control, it is not related to an essential property of business. Its encouragement of short-termism, however, relates to Sternberg's requirement for long-term owner value to be the purpose of business but by her own admission long-term is not an essential property of business. As we have seen, she explains that "Though strictly unnecessary, 'long-term' is included in the formula to highlight the simple but too frequently overlooked fact that actions have long-term consequences, in business as elsewhere" (Sternberg, 2000:53).

The essential property of business, which explains the need for business to consider long-term consequences, is that business must be sustainable, that is, it is not a short term activity. Sternberg acknowledges this: "Long-term is also included as a reminder that business is normally assumed to be a sustained activity, not a temporary one" (2000:54). That is, a business needs to be sustainable over the period of time required by its owner (which could be a short-term requirement). The foregoing suggests that generating financial value, however measured, and being a sustained activity are essential properties of business.

Turn now to the question of whether or not it is an essential property of business that the value it generates accrues to its owner. Sternberg argues that the purpose of a business is solely for the benefit of its owners and that any benefit that accrues to other stakeholders is accidental; it is dependent on how the owner chooses to conduct her business. Sternberg claims that: "The only stakeholders to which the business is automatically accountable are the owners. And the reason why the business is accountable to them, is simply because it belongs to them: it is their property" (2000:51). It is a well-established idea that if a person owns a particular item it is their sole right to determine, within prescribed limits, how that item will be employed. That idea also involves the principle that any net benefits accruing from his

property accrue to the owner.⁹² Furthermore, in respect of a business, having an owner is an essential property in that it explains those of its non-essential properties that relate to the manner of its conduct. Consequently, its inclusion in a real definition of business is justified. However, it should be noted that Sternberg's claim that business is only accountable to its owner does not preclude the possibility that the owner might be accountable to others for the conduct of her business.

The accountability of business solely to its owner might also undermine Sternberg's claim that, in the business context, value is purely financial. An owner may require his business to provide him with any number of values of which financial value is only one. Generating financial value might be considered a necessary property of business but only to the extent that it is required by business's essential property: that of being sustainable. This, therefore, suggests that generating maximum financial value is merely an accidental property of business; it is only required if the owner requires it. All that is essential to business is that it generates sufficient financial value to be sustainable.

Sternberg includes maximisation in her definition for two reasons. Firstly, she claims that it is necessary to exclude non-businesses, because, as we have seen, without it, "Hobbyists making casual sales would be running businesses, as would families selling their houses. But of course they are not" (2000:54-5). Whilst maximisation will perform this function it is not necessary, as the essential property of being sustainable will serve to exclude these types of non-business.⁹³ Sternberg's second reason for including maximisation is that without it we would be unable to make businesses decisions. As she puts it, "All sorts of things can create or conserve or even augment owner value; if business's goal were simply to further or to enhance owner value, there would be no business reason to choose one alternative rather than another" (2000:55).

However, if two competing projects both satisfy the criterion of providing financial value sufficient for sustainability, selection might be achieved by reference to one or more of the non-financial values that they generate. As Nelson points out, in such a situation "...maybe [the rational business person] chooses X because her firm has more experience with X, or because she herself has more familiarity with X, or because she just likes the idea of X in some difficult-to-describe way" (Nelson, 1998:94).

Having scrutinised business in order to determine its essential properties I have argued that these are: having an owner, selling goods and services, generating value and being sustainable.

⁹² The benefits accruing to an owner may be subject to some form of taxation.

⁹³ That is, being capable of being sustained over whatever period of time an owner requires.

Furthermore, I have recognised that being sustainable demands that the value generated includes sufficient financial value. If these properties are combined a real definition of business can be obtained, which is: *An activity aiming to generate value for the owner, of which sufficient financial value is a necessary component, in a sustainable manner, by the sale of goods and services* (Seel, 2001:34).

As I have suggested this definition effectively differentiates business from non-business but it does not possess the defect that Sternberg's definition does of excluding the likes of Nelson's corner newsagent. My definition also has the benefit of legitimising eudaimonic businesses. Owners can, if they wish, legitimately pursue the goal of contributing to the capability of happiness without compromising their businesses' sustainability by entering the market for the externalities of participation and proximity.

Although this definition renders eudaimonic businesses legitimate it does not eliminate the conflict between instrumental and normative stakeholder theorists. The former might argue that, for the majority of owners at least, prudence demands that the concept of value is empty other than for financial value and that to be confident of their businesses being sustainable they need to make every effort to maximise this. However, those who consider stakeholding normatively might argue that owners have a moral obligation to value the interests of other stakeholders and feel that there is no justification for the State paying for externalities that merely satisfy this obligation.

A possible means of eliminating, or at least reducing, this tension is suggested by the concept of "Corporate Citizenship", one of the more recent developments in the field of corporate social responsibility. The principle of corporate citizenship is to ascribe the property of being a citizen to businesses and thereby apply the principles of citizenship to the conduct of business. Moon et al (2005:443-4) question whether or not it is legitimate to consider business in this way. They identify the principle objection as being that businesses lack the "legal-administrative" status that citizenship demands. However, they suggest that businesses might be considered to be metaphorical citizens. That is, businesses seem to behave like citizens in terms of the manner in which they are conducted but they lack the legal status of citizens. They argue that business should be allowed the status of metaphorical citizenship on the grounds that other organisations, such as "pressure groups, societal associations and new social movements" have been accepted as possessing it. One potential reason for considering such organisations to be citizens is, they suggest, because they represent "aggregates of

citizens” and because businesses represent an aggregation of the interests of their stakeholders they should be considered similarly.

However, from the perspective I have been considering in this chapter, a business might be considered to represent the interests of its owner or owners.⁹⁴ From this perspective a business is the property of its owner, to be used in whatever manner the owner perceives will best contribute to her interests. In this sense the business is an instrument to be used by the owner who as a citizen will use it in a manner which accords with the rights and obligations that citizenship entails. It might be said, therefore, that a business is a citizen by association, falling between absolute citizenship and metaphorical citizenship. That is, although it lacks the legal status of citizenship it is subject to the freedoms and constraints that apply to citizens and which are embodied in law. This means that, in a eudaimonic State, it can be conducted in whatever manner the owner believes will contribute to his happiness as long as it does not obstruct the capability of happiness of any other citizen: where the capability of happiness is understood as possession of a sufficiently populated eudaimonic field.

Having established that a business might be considered to be a citizen I will examine what this entails in terms of its conduct. Logsdon and Wood (2002) see two basic perspectives that can be taken and which are essentially those of the liberal and the communitarian. The liberal perspective, which they describe as minimalist, “...is based upon complying with laws that are minimally necessary to protect individual liberty”. Whereas, communitarians perceive business “...as a functioning entity, distinguishable from the individuals who own and work for it, that is expected to act in the community’s interest as a duty of membership” (2002:162). The minimalist perspective might be equated to the positions of Friedman, Jensen and Sternberg. As I have noted, they argue that as long as the business complies with the law the only responsibility it has is to maximise owner value. From this perspective business might be considered as an adjunct to society. Business interacts with society just to the extent necessary to achieve its goal of generating maximum financial value. By contrast the communitarian perspective might be said to represent the views of normative stakeholder theorists. From this perspective business is seen as being embedded in society and has a responsibility to contribute to its well-being by having as an objective the satisfaction of at least some of the needs of its stakeholders.

⁹⁴ This raises the questions of whether or not shareholders can be considered to be owners or merely investors and, if the former, how their collective interests might be pursued and, if the latter who, if anyone, might be considered to be the owner of a corporation. These questions will be considered in detail in chapter 7.

Logsdon and Wood argue that to be considered a corporate citizen a business cannot take a minimalist perspective, it must comply with communitarian demands. They justify this by claiming that the minimalist position has a legal status that applies only to individuals and that business is thereby excluded from this perspective. However, if the status of a business is considered to be by association with that of its owner the minimalist/liberal perspective is compatible with the concept of corporate citizenship. That is, if an owner is a liberal/minimalist she is entitled to conduct her business in accordance with liberal/minimalist principles. I will consider this point further below but for the present I will continue with Logsdon and Wood's arguments in which they observe that the concept of citizenship has been eroded by the advent of globalisation.

Logsdon and Wood claim that as the power of the nation State reduces in the face of global pressures there is a tendency to consider individuals not just as citizens but as "world citizens". This is understood not in the sense of their being subjects of a world government but in terms of possessing rights that apply to each and every individual regardless of the State of which they are a citizen. They suggest that such rights are of the sort that are embodied in the Universal Declaration of Human Rights and include rights such as "...life, liberty, and security of person,...freedom of movement,...property ownership, free speech and opinion,...participation in government,...to rest and to have leisure time, ...to have adequate food and shelter" (2002:163).

Such rights, it might be noted, are closely related to the ten Central Capabilities the threshold levels of which are necessary for a sufficiently populated eudaimonic field. This is confirmed by Nussbaum (2011:102) who describes the capabilities approach generally as being a species of the international rights movement. Logsdon and Wood argue that the principles that apply to business as a corporate citizen also apply at the global level and claim that "...businesses have both a self-interest in upholding universal ethical principles and a duty to participate in creating and maintaining the conditions under which universal human rights can be achieved" (Logsdon and Wood, 2002:165). The self-interest arises from the probability that in the absence of such rights businesses will be exposed to instability and unpredictability resulting from a vast range of, often incompatible, stakeholder demands. The duty is created by adopting the communitarian perspective, which, as I noted, Logsdon and Wood claim is the only perspective available in the context of corporate citizenship.

However, Moon et al take issue with this. They claim that the liberal/communitarian dichotomy is out of date and suggest that a more appropriate model of citizenship is that of

“...a continuum comprising various aspects of liberal and communitarian citizenship, in which the liberal element is present throughout, though in different intensities”(Moon et al., 2005:431). They agree with Logsdon and Wood that the minimalist/liberal perspective is inaccessible to business but suggest that there are three perspectives that can be applied to corporate citizenship which are based on Stokes’ (2002) models of democratic citizenship. These are “civic republicanism, developmental and deliberative”.

Civic republicanism merely involves businesses behaving as citizens in terms of satisfying their obligation of, *inter alia*, obeying the law and paying taxes. By contrast, the developmental model involves business perceiving citizenship in terms of promoting social welfare. Finally, the deliberative perspective goes further and sees business taking part in “civic deliberation as equals” (Moon et al., 2005:434-447) that is, entering into the debate with other citizens or citizen groups concerning how social welfare might be promoted.

Matten et al (2003:112-115) offer a parallel analysis of corporate citizenship suggesting that it can be considered to conform to one of three different views which they describe as “limited”, “equivalent” and “extended”. The limited view treats corporate citizenship as representing “...the philanthropic role and responsibilities the firm voluntarily undertakes in the local community, such as charitable donations”. Matten et al consider this to be essentially self-interested, based on the principle that contributing to social and political stability enhances business profitability. In the equivalent view corporate citizenship is “equated” to the general concept of corporate social responsibility but without that concept’s normativity, that is, it demands responsibility without stipulating what that entails.

The extended view of corporate citizenship, however, is very different. This view sees business as taking on the role of protecting the rights of citizens where governments have failed to do so either intentionally by way of, say, budgetary cut backs or due to the lack of sufficient funding in developing countries. In the former case this might involve “...feeding homeless people, helping headmasters in managing school budgets or improving deprived neighbourhoods...” and in the latter “Improving working conditions in sweatshops, ensuring employees a living wage, providing schools, medical centres and roads, or even providing financial support for the schooling of child labourers...” (2003:116).

Moreover, extended corporate citizenship goes beyond this and is also concerned with protecting civil rights by applying pressure to governments where these rights are being denied or indirectly supporting political rights by acting as a conduit between pressure groups

and government. In respect of political rights they give the example of the McDonalds corporation where attention was drawn to inadequacies in environmental and trades union rights by attacks on McDonalds (by Greenpeace and the “McLibel two”) rather than by tackling the French or UK governments directly. This leads Matten et al to the conclusion that corporate citizenship is best understood as corporations “...engaging as facilitators of the citizen process...” (2003:117).

How does this current thinking on the concept of corporate citizenship relate to the idea of citizenship of the eudaimonic State as discussed in Chapter 3? The first thing to establish is that, as observed earlier, business can be considered in terms of citizenship due to it being the instrument of its owner who, *qua* citizen, has the right to employ it in any way she wishes as long as she observes the obligation of not obstructing the capability of happiness of any other citizen. Secondly, it is important to recognise that the eudaimonic State does not require business as a facilitator because it is failing, as Matten et al perceive it, but because the State recognises that without businesses’ involvement it cannot satisfy its obligation to create the capability of happiness for all its citizens. In this respect it does not require businesses to engage in activities such as helping headmasters or providing health centres because without their doing so society would lack these benefits. It needs business to undertake such activities because it provides those engaged with business the opportunity to acquire and exercise virtue, which, as was argued in Chapter 1, is necessary for the rational pursuit of happiness.

In Chapter 3 I argued that, in accord with Moon et al, citizenship can be considered as a continuum but in the eudaimonic State it concerns the degree of participation in the task of creating the capability of happiness. The extremes of deficiency and excess are represented by non-participation and elitism respectively and the mean, which defines the “virtuous citizen”, is the precise point where self-interest and the public interest meet. Towards the extreme of non-participation businesses, *qua* citizens, might be considered to conform to the minimalist/liberal conception, that is, they are pursuing happiness in a manner that does not entail participation. This could be considered to be the position adopted by Friedman and, to a certain extent, Sternberg and Jensen. In the eudaimonic State such a position is legitimate as long as it does not impede the capability of happiness of others.

Towards the other extreme, the elitist position is one where participation is primarily concerned with the pursuit of self-interest, with the public interest being secondary. This is the position adopted by those philanthropists solely concerned with self-interest and is described by instrumental stakeholder theory. This position is consistent with that of Sternberg and

Jensen if and only if it results in the maximisation of financial value. Philanthropic businesses whose concern is principally social welfare and the concept of normative stakeholding generally, that is, those who take the equivalent view of corporate citizenship, occupy the ground on the deficiency side of the mean. This is because they put considerations of social welfare ahead of self-interest. By failing to pursue maximum financial value they risk having insufficient resources for the pursuit of other projects that contribute to their happiness and they threaten the sustainability of the business and thereby the happiness of its other stakeholders.

The tensions that exist between the various positions can be resolved by reference to the concepts of active and passive participation considered in Chapter 3. The distinction between these two perspectives is based on the principle that, in order to satisfy its obligation to create the capability of happiness for all citizens, the State needs citizens to participate, but citizens have the right not to do so. I described those citizens that chose to participate as active participants and those that chose not to participate as passive participants. The latter were described as participants in the sense that they represented a potential resource. That is, they are available to participate if the State can demonstrate that it is in their interest to do so. I also suggested that the two types of participation are characterised by two different forms of justice. Passive participation involves a just exchange which, in respect of corporate citizens, consists of the right to conduct a business being given in exchange for the agreement to comply with the obligation not to obstruct the capability of happiness of others. This obligation, which is embodied in law, includes, *inter alia*, the obligation to pay a fair amount of corporation tax. Passive participation might, therefore, be seen as constituting Moon et al's conception of civic republicanism.⁹⁵

Active participation involves citizens entering into "natural" planner/doer relationships with the State which are characterised by just distributions. These are relationships in which there is an agreed goal or goals the achievement of which will bring clearly understood benefits to both parties. These benefits are in proportion to the contribution each party makes to the achievement of the goal for which there is an agreed form of measurement. This form of planner/doer relationship only exists at the mean, where the interests of the citizen are

⁹⁵ Passive participation is not consistent with the conventional view of civic republicanism which involves a citizen's participation in society in a manner that is free from undue interference. However it is consistent with civic republicanism as Moon et al apply it to corporate citizenship. In this sense of civic republicanism businesses are not required to contribute to society in any respect other than in the limited sense of obeying the law and paying taxes.

balanced with those of the State. Other forms of relationship will tend to be paternalistic, where businesses unilaterally decide what will best serve the needs of social welfare, or exploitative, where the benefits are disproportionately skewed towards the business. The former is related to normative stakeholder theory and equates in some measure to the concept of developmental citizenship, whereas the latter is essentially instrumental. The natural form of the relationship permits the “normative” and “instrumental” groups to contribute to goals that benefit both the State and themselves. The State benefits by having business take on responsibilities that it would otherwise have to fund itself from tax and other revenues. Consequently, in accordance with distributive justice, participating businesses are entitled to a proportion of the revenue saved according to their degree of contribution. In such circumstances the entitlement is met by payment for the externality created by the business. In addition, businesses benefit from the stability and predictability of their markets that an effective State creates and by contributing to the happiness of their owners through the opportunity for the exercise of virtue that participation provides. This is broadly in line with the conception of deliberative citizenship where “...corporations align their self-interests in a controlled and accountable way with interests of society” (Moon et al., 2005:445).

As noted in the previous chapter such a natural planner/doer relationship might be manifested in the eudaimonic State by businesses entering into partnerships with the local communities in which they trade. Such partnerships are based on generic codes of practice in respect of engagement with each stakeholder constituency and might be embodied in the business in the form of scorecards as suggested by Jensen. As proposed earlier in this chapter, these scorecards consist of a series of targets which are agreed with the community in question and aligned with the requirements of the State through the community’s integration with local and national government. The business’s contribution is measured by reference to its achievement of the targets stipulated by the scorecard, which are audited and corporation tax relief or financial subsidies are awarded accordingly. As proposed in Chapter 3, entry into such partnerships is voluntary, the State cannot demand that businesses, *qua* citizens, participate; they must structure the planner/doer relationship such that it is clearly in the interest of businesses to become involved. However, once a business enters such a relationship it accepts the responsibility of conducting itself in accordance with the requirements of the various codes of practice.

Such a natural planner/doer relationship between business and the State, although conceptually uncomplicated, is not necessarily straightforward to establish in practice. Where

the owner is directly involved in the day-to-day management of his business, such as in the case of Nelson's corner newsagent, the difficulties are relatively minor. The owner knows the value she requires from her business and how much financial value is necessary to fund her various projects and ensure the business's sustainability. Furthermore, she is personally a part of the community with which she trades enabling her to clearly understand its needs and the contribution her business can make. This, however, is not the case with multinational corporations whose global activities are the principal cause of the demands for corporate social responsibility. Such corporations are owned by a multitude of shareholders who possess an almost unlimited diversity of values and are managed on behalf of these shareholders by a group of directors and other senior executives who act remotely from the communities in which they trade. Furthermore, they are required to trade in global markets that demand "level playing field" principles of competition in satisfying the freely chosen desires of consumers. In the final section I will consider the implications of these challenges, which corporations must accept if they are to be considered to be eudaimonic businesses, beginning in the next chapter with the demands that must be met by directors and senior executives.

Section III

The Conduct of Business

Chapter 6

The Direction of Business

The idea of a flourishing business is well established in common parlance. An online search for the phrase “flourishing business” returns around 270,000 hits.⁹⁶ This suggests that business is widely considered to be, at least, analogous to a living thing. In the following I will consider to what extent that analogy might be considered valid. I will suggest that although business might be considered to be an artefact it exists as a consequence of the specific nature of the human species. It exists as a result of our particular needs but there is a sense in which it has a life of its own. As a living thing it can be described in terms of Aristotelian categoricals and I will consider the specific Aristotelian categoricals which can be ascribed to business. I will go on to examine the Aristotelian necessities that are required to create those Aristotelian categoricals, the possession of which renders a particular business a “good” business. I will argue that it is the unalienable right and unavoidable responsibility of the owner of a business to determine its ultimate direction and that a principal cause of defect in a business is the uncertainty concerning what that direction is and whether it is being followed. I will conclude by proposing the formation of partnerships between businesses and local communities as a means of avoiding that uncertainty and promoting the “health” of a business.

Whilst there is a general usage of the term flourishing in connection with business there is not general agreement that this entitles business to be considered as something that is alive. Melé (2012) suggests that two prominent ways of thinking about business are as a “nexus of contracts” or as a “set of concurrent interests”. That is, business is merely a concept that we have developed as a convenient means of managing the exchange of goods and services that we require in order to pursue our goal of happiness. Melé, however, argues that business is much more than that, claiming that it is a “community of persons”. He cites Tonnies claiming that, “Communities are the result of what Tonnies termed “essential will” derived from blood relations, spatial relations and spiritual relations. Family, a small village, and churches are

⁹⁶ Google search engine 5.8.2013

typically communities in Tonnies's sense" (2012:92). He believes that such a description can be extended to businesses, citing Solomon who makes the point that "If we consider corporations first of all as communities - not legal fictions, not monolithic entities, not faceless bureaucracies, not matrices of price/earnings ratios, net assets and liabilities - then the activities and the ethics of business become much more comprehensible and much more human" (Solomon, 1993:150). We might say that it is the contracts, legal fictions and the like, not the business itself, which are artefacts. They are conventions that businesses use in order to make the complexities of conducting business more amenable. Moreover, businesses involve people who use various artefacts to assist in the process of doing business. If the artefacts are removed the business could theoretically continue, although probably in a very different form. However, if the people were removed the process of "doing business" would end; the business would cease to exist.

In response, it might be argued that the business consists in a "nexus of contracts" but that human beings are required to operate it. In this sense a business might be compared with, say, a motor car. Human beings make the car by bringing together a variety of components and it requires human beings to drive it. However, once it has been created it remains a motor car whether it is driven or not. These things, though, are not true of businesses. To some extent a business is created by the various contracts and legal processes that we enter into and the business is "driven" by selling goods and services. However, a business does not consist of contracts and legal permissions, they are merely a part of the business; the business uses them. That is, a "nexus of contracts" is an accidental rather than necessary property of business; they are instrumental not essential to the business process. By way of illustration, consider a person who makes a living by standing in a river catching fish with her bare hands and selling them to travellers passing along the river bank. Such a person might be described as having a fishmonger's business yet there are no artefacts whatsoever involved in its existence or conduct.⁹⁷ The business consists entirely in the commercial transactions between the person catching the fish and the passing travellers; there are no contracts involved as such. The exchange of fish for money or other goods might be said to involve an implicit contract which enforces that exchange. However, at a more basic level the exchange is governed by the virtue of justice. Any contract that exists is merely a mechanism to compensate for a possible lack of virtue in the parties involved. As such a contract could be considered as an accidental

⁹⁷ It might be argued that the business uses money, which is an artefact. However, to the extent that the business does use money, it is as a convenience not a necessary part of the business. The business could, if required, be based on the principle of bartering.

rather than essential feature of an exchange. Alternatively, rather than being a “nexus of contracts”, as Melé pointed out, business has been described as a “set of concurrent interests”. However, interests can only be possessed by living things and living things that are rational; that possess *nous*. As noted in Chapter 1, the only living things that indisputably possess *nous* are humans. This suggests that business is essentially a collection of human beings characterised by their mutual interests.

Based on the foregoing, we might say that business consists in the relationship between people. That is, the relationship between those engaged in business and their customers and not the conventions or artefacts that are used to facilitate that relationship. In an Aristotelian sense, it might be said that, because man is a “political animal” who has particular needs, business will inevitably come into existence; it is an emergent feature of human society. Business is comprised of people but the whole is greater than the sum of its parts. Business functions in a manner and achieves results of which no individual person is capable.

The idea that business can be considered to be a living thing is endorsed by De Geus who, based on many years’ experience in business, suggests that, “all companies exhibit the behaviour and certain characteristics of living entities. All companies learn. All companies, whether explicitly or not, have an identity that determines their coherence. All companies build relationships with other entities, and all companies grow and develop until they die” (De Geus, 2002:10). In this sense we might be justified in claiming that business has a life of its own. If this is the case it might serve to refute the claim that Aristotle condemns business as being unnatural. Construed as a living thing business is necessarily natural; it is only the manner in which it is conducted or the goals it pursues which have the potential to render it unnatural.⁹⁸

If we accept that a business can be considered as a living thing we can apply to it the principles of Ethical Naturalism considered in Chapter 1. I began with Thompson’s (1995) examination concerning what it is that constitutes the possession of life. I observed that the characteristics of a living thing, that are involved in conferring the property of being alive, are what Thompson called “Aristotelian categoricals”. I also observed that a good example of a particular species is one that exhibits all the Aristotelian categoricals of that species and, conversely, any individual that lacks one or more such Aristotelian categoricals is deemed to some degree defective. In addition, I noted that, in a sense, collectively, the Aristotelian categoricals describe the essence of what it is to be a member of a particular species. From an Aristotelian perspective,

⁹⁸ Unnatural in this sense means obstructing the rational pursuit of happiness.

to determine the essence of a thing is to define it and, consequently, we might say that the definition of the species of a living thing consists in a statement of its Aristotelian categoricals. If this is the case, the definition of the species “Business”, which was established in Chapter 5, can be considered to be a collection of its Aristotelian categoricals, the presence or absence of which in an individual business determines whether it is good or defective.

The definition of business obtained in Chapter 5 is, *“an activity aiming to generate value for the owner, of which sufficient financial value is a necessary component, in a sustainable manner, by the sale of goods and services”*. Consequently, from this definition, it is possible to identify the Aristotelian Categoricals of the species “Business” which are:

The Business has an owner

The Business generates value for its owner

The Business generates sufficient financial value

The Business is sustainable

The Business sells Goods and services

As observed in Chapter 1, in the case of living things which possess rationality, Aristotelian necessities are the behavioural norms that establish the Aristotelian categoricals and bind the individual member of the species to them. In Chapter 1 it was noted that a complete set of Aristotelian categoricals are necessary for an individual to be considered as a good example of its species. A “good” individual must, in consequence, exhibit sufficient Aristotelian necessities to create those Aristotelian categoricals and bind the individual to them.⁹⁹ Any individual that lacks Aristotelian necessities sufficient for this purpose would, on this measure, be considered defective. I will, therefore, apply this principle to business by examining the five Aristotelian categoricals listed above I will then go on to identify the Aristotelian necessities required to create each and thereby constitute a “good” business.

Beginning with the first of the Aristotelian categoricals, the requirement for the business to have an owner, I will first attempt to understand what it is to be an owner.¹⁰⁰ The concept of ownership is linked with the concept of property and, in particular, private property. Waldron

⁹⁹ As I observed in chapter 1, McDowell argues that it is through the medium of Aristotelian necessities that rational beings create a second nature. It could, therefore be said that business is a collective second nature of a group of people.

¹⁰⁰ This chapter considers the concept of “an owner” and in so doing mainly uses a simple model of a single, personal, owner. More complex models, involving multiple shareholders are considered in Chapter 7.

(2004) explains that “‘property’ is a general term for the rules that govern people's access to and control of things like land, natural resources, the means of production, manufactured goods, and also (on some accounts) texts, ideas, inventions, and other intellectual products.” He points out that private property allocates the right to the access and control of such things to an individual or group of individuals “...to use and manage as they please, to the exclusion of others (even others who have a greater need for the resources) and to the exclusion also of any detailed control by society”. The owner, therefore, is the individual or group of individuals who possess the exclusive right to the use of a particular item of property. The State, though, does have a degree of control over how property is used. A person may own a knife and may use it for whatever purposes he wishes except that he may not unlawfully use it to harm another person. Waldron, therefore, suggests that property is better understood, not in terms of a single right of ownership but as the combination of a number of different rights that differ according to circumstances.

Applying these principles to the owner of a business, it can be concluded that she possesses a number of rights concerning how that business will be used or managed. As business is being considered as a living thing it is being considered teleologically. That is, it is being considered according to its life cycle; beginning with its creation or incorporation, progressing through a period of maturity during which, as a living thing, it reproduces¹⁰¹ and ending with liquidation or by combination with another business by takeover or merger. The owner of a business therefore has various rights concerning how that life cycle will be managed. That is to say, she has the right to determine its direction. However, theoretically, in a eudaimonic State at least, she also has the right not to determine the direction of her business. Exercising such a right, though, effectively results in a business with no owner, a business that, lacking direction, will very probably fail. As having an owner is an Aristotelian categorical such an acephalous business would be considered defective.

It might be argued, however, that the owner may wish to have a defective business. Such a choice though seems irrational. The purpose of business is, as has been argued, to generate value for the owner in a sustainable manner and a defective business, particularly if it fails, is one that will not achieve one or both of these criteria. This implies that a defective business may generate something which the owner does not value or generate something he does value but only for a short period of time. Both of these outcomes are likely to lead to the

¹⁰¹ A business might be considered to reproduce by the process of innovation which I will consider later in this chapter.

frustration of desire and thereby lead to unhappiness, which, *ex hypothesi*, all rational people wish to avoid. Exercising control over the direction of business therefore involves stipulating the value the owner requires from her business, the generation of which is the second Aristotelian categorical.

The issue of owners exercising control over the direction of their businesses is particularly important in respect of shareholders and this will be considered in detail in Chapter 7. For the present I will simply note that a “good” business requires its owner or owners to exercise control over its direction. Such control will involve two elements, strategy and tactics. Strategic control involves creating the framework within which the sustained generation of value is possible, whereas tactical control involves initiating the actions that will generate such value within that strategic framework. One of the rights that an owner possesses in respect of controlling the direction of his business is that of delegation. He may delegate one or both of the aspects of control to others. If the owner of a business retains strategic control of the business but delegates its tactical control he does so by employing a professional manager or managers. These managers are responsible for implementing the strategy, determined by the owner, which he believes will generate the value he requires from his business. If the owner delegates strategic control of the business he also delegates tactical control. He does this by appointing a director who may, if she wishes, delegate tactical control through the employment of managers.

If an owner delegates strategic control of her business to a director she must stipulate the value she wishes her business to generate so that the director is able to formulate an appropriate strategy. As was discussed above, failure to do so would be to renounce the status of owner thereby producing a defective business. It might be argued that the right to determine the value to be generated could be delegated to a director along with strategic control of the business. However, this is problematic. The act of generating owner value requires knowledge of what the owner values and in the absence of any indication from the owner of what that might be the director can only make an educated guess. Friedman, Jensen and Sternberg might claim that this represents no problem; all that is required is a strategy that maximises financial value. However, the owner may have other values that conflict with this goal.

Consider a recent example concerning the Church of England and the payday loan company Wonga. The Archbishop of Canterbury declared that he has strong objections to the ethics of the type of lending in which Wonga is engaged and resolved to put them out of business. He

was, therefore, extremely embarrassed to find that the Church of England's pension fund had investments in a venture capital business which, in turn, invested heavily in Wonga (Neate, 2013). The issues of ownership involved here are very complex and will be considered further in Chapters 7 and 8. For the present it serves as an example to suggest that it is not safe to assume that an owner will have an unqualified desire for maximum financial value.

In light of the above, it seems that the director cannot reliably guess what value the owner requires of his business. However, in order to formulate a strategy, she needs some conception of value and may therefore be tempted to adopt her own. This either involves the same problem as guessing, her values and those of the owner may not coincide, or, it involves a transfer of ownership. If, and only if, ownership is transferred to the director she becomes legitimately entitled to determine the value that the business will generate. However, such a transfer is itself only legitimate if it conforms with the principles of justice in exchange which require that the director must make a payment to the owner that is equivalent to the value of the business. Of course the owner may simply choose to give the business to the director as an act of generosity but such an arrangement would have to satisfy whatever requirements the State imposes, such as a gift tax. Once the transfer of ownership is completed the director may determine the value the business is to generate but she does so *qua* owner not director. Consequently it appears that a "good" business, in the naturalistic sense, must have an owner who determines the value that the business will generate. On the basis of the above, as long as the director is pursuing the value that the owner requires he might be considered to be a proxy owner. This requires that the director is aware of the wishes of the owner in terms of the value she requires from her business and that he carries them out faithfully. These requirements will be considered later in this chapter. For the present I will assume that they are met.

My definition requires that whatever other value the owner requires from his business there must be sufficient financial value, which is the third Aristotelian categorical of business. What is not clear however is what that financial value is to be sufficient for. As one of the Aristotelian categoricals of business is that it is sustainable we might assume that it is financial value sufficient for this purpose that the business must generate. This is a matter that falls within the remit of the director and she is presumed to have the expertise necessary to satisfy its demands. However, the owner may require the business to generate the financial value which he believes that he requires for the pursuit of happiness. This may be for the basic necessities of life such as food and clothing, the satisfaction of desires such as holidays in the

sun, exercising the virtue of generosity by making charitable donations or any of an almost limitless range of possibilities. As this is a complex requirement that that even the owner may have difficulty in quantifying, it may be that, as suggested in Chapter 4, the director needs to conduct the business so as to generate the maximum financial value possible. This possibility will be considered further below.

As observed above, the owner may perceive at least part of the value his business generates in terms of the rational pursuit of happiness. That is, she may wish it to be a means of acquiring and exercising virtue, for example the virtue of generosity. She might require her business to make charitable donations or undertake community based projects such as decorating a care home or building a new library. However, such activities are vulnerable to the criticisms levelled by Friedman, which were considered in the previous chapter. Friedman makes the point that the managers of businesses are not qualified to make judgements about which philanthropic projects are beneficial. Only the State possesses the knowledge and expertise to determine this (Friedman, 1970). For example, plans may exist to rebuild the care home and there may be an insufficient budget to staff the library such that pursuing such projects may have the effect of wasting money or creating problems. If the owner wishes his business to be a means by which he can acquire and exercise virtue he might achieve this by requiring it to be eudaimonic. As observed in Chapter 4, this involves the business contributing to creating the capability of happiness for its stakeholders by entering into a form of partnership with the local communities within which it trades. The links to national government which are a feature of such partnerships will, as I claimed in Chapter 5, serve to avoid Friedman's objection. The owner, or the director charged by the owner to establish such partnerships, will therefore have to conduct the business so as to achieve this goal whilst ensuring that the business possesses the fourth Aristotelian categorical, that of being sustainable.

Corporate sustainability is a well-established concept with a number of frameworks or guidelines intended to promote it, such as the Global Reporting Initiative and the United Nations Commission on Sustainable Development Framework (Labuschagne et al., 2005:374). Despite this there appears to be no single definition of corporate sustainability. Labuschagne et al describe it as, "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future" (2005:373). Dyllick and Hockerts offer a similar definition but one which is more specific about what the future concerns will be. They describe a sustainable business as "meeting the needs of a firm's direct and indirect

stakeholders (such as shareholders, employees, clients, pressure groups, communities etc.), without compromising its ability to meet the needs of future stakeholders as well” (Dyllick and Hockerts, 2002:131). Both these definitions suggest that in order to be sustainable businesses need to structure their current activities with a view to the likely future needs of their then stakeholders. Salzmann et al seem to take a more focussed approach to sustainability when applied to business, describing it as “a strategic and profit-driven corporate response to environmental and social issues caused through the organization’s primary and secondary activities” (Salzmann et al., 2005:27). Here the key concern is that a business should be profitable without any specific reference to its stakeholders or explicit consideration of the future. Their concerns do not seem to be in respect of the environment or society *per se* but of the “issues” that the business’s activities create. Wheeler et al go some way to combining the ideas of generating financial value with consideration of stakeholder interests with their suggestion that sustainability is best served “where the organization recognizes the interdependencies and synergies between the firm, its stakeholders, VBNs and society, and seeks to maximize the creation of value simultaneously in economic, social and ecological terms” (Wheeler et al., 2003:11).¹⁰²

Despite the apparently different interpretations of the requirements of sustainability, there appears to be an overall consensus that there are three basic components to the concept of corporate sustainability: economic, social and environmental. This consensus is supported by the United Nations Environment Programme which uses them as the basis of its framework for sustainable development (Labuschagne et al., 2005:374). However, the United Nations views these components as being external to business. It considers business in terms of what it can contribute to the economic, social and environmental sustainability of nations. My concern, however, is with the sustainability of the business itself and not directly with its contribution to the economic development of nations. From the perspective of the sustainability of businesses, Labuschagne et al acknowledge that social and environmental concerns are external matters but suggest that economic sustainability should be considered from an internal perspective. They make the point that first and foremost a business must be able to stay in business if it is to be capable of contributing to anything. They claim that “Companies survive on the long term through their ability to be profitable and unviable businesses can make no contribution to the economic systems on a local, national or global level”

¹⁰² VBNs are Value-based Networks which Wheeler et al suggest are a phenomenon of global digital communications. They can be considered to be a loosely defined group of people who perceive value in a particular business at a particular time and in particular circumstances.

(Labuschagne et al., 2005:377). Dyllic and Hockerts describe economically sustainable businesses as those that “guarantee at any time cashflow sufficient to ensure liquidity while producing a persistent above average return to their shareholders” (Dyllick and Hockerts, 2002:133). This suggests that generating sufficient financial value for the owner is the most basic requirement for corporate sustainability.

However, it is clear that financial value alone is not sufficient for sustainability. It is a fundamental and necessary component of sustainability, but environmental and social demands must also be met. Dyllic and Hockerts suggest that environmental and social sustainability involve considerations external to the business such as not using natural resources beyond their ability to reproduce, not polluting the environment beyond its ability to absorb pollutants, adding value to the communities in which they operate, and acting so as to obtain the endorsement of those communities (2002:133-4). In such circumstances they suggest that, whereas economic sustainability is the instinctive goal of business executives, concerns relating to environmental and social sustainability are the product of external pressure from consumers and society in general (2002:138). In reality society will react to environmental threats to sustainability by such actions as imposing fishing quotas or insisting on replacement of trees felled by timber businesses. Businesses that refuse to accept these restrictions will threaten their ability to continue trading.

Wheeler et al effectively sum up the above when they suggest that “...business ideas that do not create economic value and maximize social and environmental gain over the long term will not be sustainable” (Wheeler et al., 2003:14). In essence this could be considered to be a matter of Corporate Social Responsibility expressed in terms of stakeholder theory. Salzman et al seem to endorse this when they observe that most theoretical studies of business sustainability, in terms of the relationship between social and financial performance, have been based on the concepts of Corporate Social Responsibility or Corporate Social Performance (Salzman et al., 2005:28). If we accept the foregoing it is clear that a “good” business, that is one which possesses the Aristotelian categorical of being sustainable, will be managed in order to generate sufficient financial value to be capable of continuing to trade and to contribute as much as possible to satisfying the demands of its stakeholders. As I argued in Chapters 4 and 5, there are a number of difficulties associated with meeting these requirements and I will consider the principal ones later in this chapter. Before that, however, I will consider the final Aristotelian categorical of business, selling goods and services.

By comparison with the requirements I have considered above the fifth Aristotelian

categorical, the requirement to sell goods and services, is fairly straightforward. Sternberg makes the point that businesses must sell goods and services observing that “...it is not about maximising long-term owner value through theft, or alchemy, or increasing or preserving personal assets” (Sternberg, 2000:42). She also makes the point that it is not sufficient for a business to manufacture goods or facilitate services it must actually sell these items (2000:36). Selling goods and services requires that a business has customers and that the goods and services in question satisfy those customers’ needs. Consequently, “If selling striped widgets contributes more to long-term owner value than selling spotted ones, then a business will concentrate on stripes” (Sternberg, 2000:43).

In addition to the five Aristotelian categoricals of the species “business” considered above there is the characteristic possessed by all species of living things, that is that they reproduce themselves. Clearly, as business is not the sort of thing that reproduces sexually, we have to ask “how then do businesses reproduce?”. The obvious answer is that they form new subsidiary businesses, possibly by diversifying into new types of product or by entering new geographical areas or both. This generally involves innovation; the action of producing new methods, ideas or products.¹⁰³ Dougherty (1992:179) points out that there are generally accepted to be three requirements for successful innovation in business. These are, designing products that meet customers’ needs, internal collaboration between departments within the business, and aligning technological issues with those of the market. Success in these three areas involves consulting with and acknowledging the input of those who affect or are affected by the business. Consequently, it might be said that, in our terms, business reproduction involves the active participation of all stakeholders of the nascent business.

Having considered the Aristotelian categoricals of business I will now investigate the Aristotelian necessities associated with each of them. As noted in Chapter 1, Aristotelian necessities are behavioural norms which bind the individual to the Aristotelian categoricals of its species and as such we should expect there to be a number of such norms associated with each of the Aristotelian categoricals of business. I will therefore attempt to establish what these might be, beginning with the Aristotelian categorical, “the business has an owner”.

For the business to effectively have an owner a number of conditions must be met. Firstly, the status and rights of ownership must be acknowledged. If the business consists solely of the owner this is not an issue. However, where the owner has employees the rights of ownership must be acknowledged by those employees. This is particularly the case where the owner has

¹⁰³ Oxford Dictionary of English

delegated tactical or strategic control of the business to them. Employees must know the identity of the owner, accept that the owner has the absolute and sole right to determine the value that the business will generate and faithfully devote their efforts to generating that value. The owner must be satisfied that her requirements in this respect are clearly understood and being met. Where there is a single owner, or a small group of owners, such as in a partnership, this might be considered to be a relatively straightforward matter. However, larger businesses will predominantly be owned by a large and diverse group of shareholders. This raises problems concerning whether or not shareholders can be considered to be owners in the sense we have been considering and to what extent, and by what means, their individual wishes concerning the management of their business can be aggregated. These issues will be addressed in detail in Chapter 7. However, for the purposes of this chapter, I will assume that collectively they do possess the full rights of ownership and that their wishes can be combined such that they can be treated as if they were an individual owner.

In the United Kingdom the bases for enabling the above requirements are the Articles of Association.¹⁰⁴ These might be defined as, “The internal rule book that every incorporated organization must have and work by” and they can be considered as, “...a part of the constitution of an organization” which, “... sets out the rights and duties of directors and stockholders individually and in meetings” (WebFinance, 2013a). In the United Kingdom the requirements for adopting Articles of Association are stipulated in the Companies Act 2006. Within the act it is the “The Companies (Model Articles) Regulations 2008” that specify, in considerable detail, the specific rights and duties involved. However, there are two clauses within those regulations that establish, in general terms, how the business is to be controlled. Firstly, in respect of the authority of directors; “Subject to the articles, the directors are responsible for the management of the company’s business, for which purpose they may exercise all the powers of the company”. Secondly, as regards the rights of shareholders, they may, “by special resolution, direct the directors to take, or refrain from taking, specified action” (Department for Business, 2008). It seems that there is a potential problem here in respect of the criteria associated with the Aristotelian categorical of having an owner.

As noted above, an owner may delegate the strategic management of a business to a director. However, if in doing so he delegates the responsibility for determining the nature of the value a business must generate he creates, *ipso facto*, a defective business. For a business to be considered a good example of its species it must have an owner who, at least, specifies the

¹⁰⁴ In the United States these are known as the Articles of Incorporation.

value he requires his business to generate. If this is the case it seems that the general provisions of the regulations concerning Articles of Association represent an inversion of what a good business requires. They imply that a director is to use her expertise to guess what value an owner requires and that the owner must seek a special resolution in order to have that varied in the event that the director has guessed wrongly. It is probable that this formulation has been adopted in the regulations because of the assumption that all shareholders will require their businesses to generate maximum financial value and that any other issues regarding the conduct of the businesses can be dealt with in an *ad hoc* manner by the use of special resolutions.

However, as I have argued, the assumption that maximum financial value alone is what an owner requires is unsafe. Furthermore, the determination by the owner of what value is to be generated lies at the heart of what constitutes a good business. Consequently, regulations that do not accommodate these requirements can be considered unsatisfactory. In my terms, it might be said that Articles of Association that require the unambiguous statement by the owner of the value she requires her business to generate are an Aristotelian necessity for the Aristotelian categorical “the business has an owner”.

Having ensured that the business has an owner who possess and exercises the necessary rights of ownership I will consider the next Aristotelian categorical of business; “the business generates value for the owner”. This concerns compliance with the wishes of the owner and involves the concept of “fiduciary responsibility”. Walsh explains that this concept has been established by legal precedent and in particular the case of *Guth v. Loft, Inc.* in which the following principle was established:¹⁰⁵

Corporate officers and directors are not permitted to use their position of trust and confidence to further their private interests. While technically not trustees, they stand in a fiduciary relation to the corporation and its stockholders. A public policy, existing through the years, and derived from a profound knowledge of human characteristics and motives, has established a rule that demands of a corporate officer or director, peremptorily and inexorably, the most scrupulous observance of his duty, not only affirmatively to protect the interests of the corporation committed to his charge, but also to refrain from doing anything that would work injury to the corporation, or to deprive it of profit or advantage which

¹⁰⁵ The case and the precedent it creates relate to courts in the United States but the principle it represents is widely accepted.

his skill and ability might properly bring to it, or to enable it to make in the reasonable and lawful exercise of its powers (Walsh, 2002:334).

In the terms that I have defended above, this requires that those who have delegated responsibility for the management of a business exercise it to the best of their ability in pursuit of the value specified by the owner and in accordance with the other Aristotelian categoricals that define a business. In return for this they are entitled to remuneration which is agreed with the owner and which is in accordance with the principles of distributive justice. Walsh, however, makes the point that it has become an established principle that directors or officers might be allowed to benefit directly from their conduct of the business if that benefit is declared and formally approved by the shareholders (2002:334).

Notwithstanding that a director has a legal obligation in respect of his conduct of the business over which he has delegated authority, the owner needs to be confident that that responsibility is being correctly discharged and there are a number of measures by which this is achieved. One of the principal means of monitoring the performance of a director is the Annual General Meeting (AGM). A basic specification of the nature and conduct of the AGM is given in the regulations concerning Articles of Association. In one sense, however, the AGM and the Articles of Association of a business might be seen as complementary. If the Articles of Association are considered, at least in part, to be the means by which an owner informs her director of the value she requires her business to generate, the AGM can be interpreted as being the mechanism by which the director informs the owner of what has been achieved in that regard. Whilst Articles of Association are forward looking, the AGM is retrospective; it reports on the performance of the business over a period of time, usually the accounting year just ended. The AGM has two basic functions, firstly it provides information to the owner¹⁰⁶ about the performance of the business and, in the words of Catusus and Johed, it “...offers a rare unmediated opportunity for calling management to account for their actions” (Catusús and Johed, 2007:169).

In the United Kingdom the reporting requirement is satisfied largely through the medium of the Report and Accounts. This is a document that presents the financial performance of the business in a form prescribed in law and endorsed as an accurate representation of the financial condition of the business by independent auditors. The document is circulated to all owners prior to the AGM at which it is taken as read. However, the document is not for the

¹⁰⁶ In the context of the AGM the term owner usually means shareholder. However, the term owner is used here in its general sense but can be considered to be interchangeable with shareholder.

exclusive use of owners. Often, particularly in respect of larger businesses, it is a glossy publication used for marketing purposes. It also contains information concerning the businesses performance as a socially responsible organisation, reporting on such issues as community engagement, energy consumption or waste recycling. During the AGM owners have the opportunity to question their directors on the content of the Report and Accounts or any other matter which is of concern to them. However, there are significant weaknesses in this process.

Catasus and Johed (2007:171) point out that a number of commentators believe that the technicality and complexity of the financial accounting format is such that many owners are dissuaded from entering into discussions about them and, as a consequence, may be disinclined to attend the AGM at all. They also suggest that the process is ritualised and essentially confrontational. Of a survey of 36 AGMs, ranging in size from nine to over a thousand attendees, they observed that attendance, "...was only around 1% of all shareholders. The meetings themselves were set within a certain framework with a snack before or after the meeting and sometimes including some kind of entertainment. The AGMs lasted from 40 min to around 3 h, the median was 78 min and mean was 90 min" (2007:176). Catasus and Johed paint a picture of AGMs in which the director rehearses the manner in which the meeting will progress, a part of which is to attempt to anticipate and prepare for any questions that will be posed. They describe a strategy adopted by some owners, by way of a response, of preparing questions which they believe the director will not have planned for in the hope of destabilising her.

As observed earlier, the AGM is the principle means by which the owner satisfies himself that the director is conducting the business in a manner that will generate the value he requires from it. However, the picture that has emerged is one of a short and almost symbolic form of meeting, attended by few owners and which reports mainly on the financial value generated in a difficult to understand manner. Furthermore, the main players, the director and the owner, seem to be engaged in a game of "cat and mouse" when it comes to understanding the true performance of the business. In fact Catasus and Johed cite Jones¹⁰⁷ saying that the AGM is a "...carefully orchestrated affair, with a tight-lipped chairman divulging only as much as he needs to" (Catasús and Johed, 2007:186). They suggest, possibly as a result of this, that, "Despite the significance assigned to the AGM in codes of conduct and policy documents, many critical issues are actually debated and decisions made beforehand at private meetings

¹⁰⁷ Jones, I. (2003). Quo vadis? Chartered Secretary Magazine.

between management and major shareholders” (2007:180).¹⁰⁸ In order to create the Aristotelian categorical “the business generates value for the owner” it can be considered to be an Aristotelian necessity that the AGM is conducted in a particular manner. That is, it is inclusive of all owners, it provides owners with the information that they require in a form that they can readily understand and is conducted by a director who is open and forthcoming when responding to questions.

Independent auditors¹⁰⁹ have an important role to play in a well managed business. Porter makes the point that, traditionally, the principle concern regarding the actions of the management of a business is that they, “...are perceived to be in a position to use corporate assets for their own, rather than the shareholders’ benefit”. And that, as a consequence this, “...underlies the accounting and audit requirements of companies and securities legislation in, for example, the USA, Canada, UK, Australia and New Zealand” (Porter, 2009:159). This is consistent with the view that directors may be inclined to use the assets of the business for their own purposes rather than for generating value for the owners. It is also consistent with the idea that owner value is essentially financial in nature. However, Porter goes on to explain that, as a consequence of external pressure for businesses to be accountable to their stakeholders there is an increasing demand for them to report on matters of Corporate Social Responsibility (CSR), stating that:

The general acceptance of the notion that, at least significant, companies should be held accountable for behaving in a socially responsible manner is reflected in the inclusion in the UK Companies Act 2006 (s.418) of a requirement for the directors of quoted companies to include in the business review section of their directors’ report, to the extent necessary for readers of the company’s annual report to understand the development, performance and position of the company’s business, information about environmental matters (including the impact of the company’s business on the environment), the company’s employees and social and community issues (Porter, 2009:163).

In the United Kingdom and many other countries there is a statutory requirement for the financial accounts of a business to be reported and independently audited. In addition, Porter explains that there is increasing pressure on businesses to report on their CSR performance.

¹⁰⁸ The role of institutional investors in influencing the conduct of business will be considered in chapter 7.

¹⁰⁹ These are often referred to as External Auditors to distinguish them from the internal audit functions which directors utilise in order to meet their responsibilities in managing risks to the business.

Although this is not generally a legal requirement, The London Stock Exchange, and a number of other stock exchanges, have made it a listing requirement to report on Corporate Governance codes of practice which embody CSR performance. In response to this, although again not legally required to do so, many of the larger businesses have taken steps to have these reports audited (Porter, 2009:169,174).

My concern, however, is for the generation of value for owners, not, specifically, for that of stakeholders generally. In a eudaimonic State an owner, *qua* citizen, may conduct her business in any manner she wishes, with the proviso that no other citizen has his capability of happiness obstructed as a consequence. If, therefore, an owner does not perceive value in her business pursuing social goals she will not require the business to report to her on the business's performance in that respect; she is simply not interested. Furthermore, by making social goals a part of the auditable purpose of business there is the possibility of business illegitimately taking on the role of government in the manner condemned by Friedman (1970).¹¹⁰ The director may need to respond to external pressure to pursue such goals for reasons which I will discuss shortly. Doing so would be a legitimate discharge of his responsibilities to the extent that it was necessary to permit the business to generate the value the owner required of it. However, to the extent that such goals are not necessary for the generation of owner value, they should not be pursued.

To summarise with respect to the Aristotelian categorical, "the business generates value for the owner", we might say that we have established a number of Aristotelian necessities. Firstly, it is necessary that the director and the owner have the opportunity for the former to report to the latter, in an open and cooperative manner, regarding the performance of the business in generating value for the owner. The AGM is one mechanism for achieving this. In order that the owner can be satisfied that her business is being conducted appropriately, performance in generating owner value, which the owner has stipulated unambiguously in Articles of Association, should be audited and reported on. The auditors carrying out this function should do so in a manner which is readily understandable by the owner and leaves no uncertainty about the performance of the business.

The third Aristotelian categorical is that "the business generates sufficient financial value". It might be considered that there are two purposes for which financial value generated is required to be sufficient. It must be sufficient for the purposes of the owner in terms of

¹¹⁰ I noted in chapter 5 that Friedman claimed that business should not pursue social goals as only government has the knowledge, expertise and legitimacy to do so.

whatever projects he believes will contribute to his happiness and it must be sufficient for the needs of sustainability. Viewed in this manner it could be said that “generates sufficient financial value” is not a discreet category but is formed from components of “generates value for the owner” and “is sustainable”. On the one hand, the owner requires her business to contribute financially to whatever she perceives as constituting her happiness. This can involve the process of desire satisfaction or, if happiness is being pursued rationally, the creation and population of a eudaimonic field. Because, as I observed in Chapter 1, desire satisfaction does not lead to the true happiness that we all seek, as a process its demands are unlimited. Consequently, it is likely that the financial value required from the business is unlimited; resulting in what is sufficient being the maximum that the business is capable of producing. On the other hand, the rational pursuit of happiness does not require unlimited wealth; it can be achieved with limited resources.

However, as noted in Chapter 4, Lewis points out that human beings generally are concerned about securing their livelihood, which involves the possession of good health and sufficient wealth. As he explains, “Both health and wealth are necessary components of livelihood, and it is anxiety about livelihood that induces men to secure livelihood by seeking both to excess” (Lewis, 1978:75). Consequently, even an owner pursuing happiness in a rational manner may feel that, as a hedge against future uncertainty, he needs his business to generate the maximum wealth possible. I also noted that, in a eudaimonic State at least, the requirement that a business generates maximum financial value is legitimate.

A similar principle applies to sustainability. In order to survive, a business needs to generate sufficient financial value to meet the full range of costs associated with selling goods and services. *Inter alia*, it must generate income sufficient to pay its employees and its suppliers and fund activities such as marketing or research and development. In addition, unless it generates sufficient financial value for the purposes of its owner it may be sold or liquidated.¹¹¹ Consequently, given the degree of uncertainty over future requirements in these respects, a prudent owner or director will manage the business in a manner such that the maximum possible financial value is generated. It might be concluded, therefore, that the creation of the Aristotelian categorical “the business generates sufficient financial” requires an Aristotelian necessity of pursuing the maximum financial value possible. That is to say that, ironically, although it is not an Aristotelian categorical - that is, an essential characteristic of

¹¹¹ The implications of failing to generate sufficient financial value are particularly important in respect of the expectations and consequent actions of shareholders. These will be considered in chapter 7.

business - that it generates maximum financial value it may be an Aristotelian necessity.

As noted earlier, sustainability involves more than financial considerations. To be sustainable a business must also consider social and environmental constraints, which themselves will influence the financial value that it is possible for a business to generate. I also noted that these constraints were largely imposed by society in an attempt to cause businesses to be conducted in a manner of which society approves. The measures available to society in this respect include, boycotting the products of a particular business, lobbying for State action against a business and legislation to proscribe specific activities in which businesses might otherwise choose to engage. Consequently, failure to respond adequately to these constraints has a financial impact on the business in terms of, *inter alia*, lost sales and fines. Ultimately it is this financial impact on the business that threatens its sustainability. Clearly, in order that a business is sustainable it should be conducted in a manner that complies with the demands of society. However, there is a cost associated with doing so. For example, there may be additional costs associated with obtaining raw materials from sustainable sources or paying employees a minimum wage.

In simple terms, if a business is to be sustainable, the costs it saves and the increased revenue it generates by complying with the demands of society must exceed the costs it incurs by failing to do so. Vogel (2005) describes this in terms of a “market for virtue” in which the revenue generated by being socially responsible must exceed the costs incurred. However, Vogel also points out that this market does not seem very strong. He suggests that, “Consumers appear more willing to avoid a product produced in ways they regard as irresponsible than to purchase a responsibly produced product”. Furthermore, “...there is little evidence that the market for virtue works by making it easier for responsible firms to attract or retain customers or employees, or to charge customers more or pay employees less” (Vogel, 2005:51,60).

In order to have the best chance of achieving sustainability, owners, or their directors, must be able to understand this market and ensure that any socially responsible initiatives they take contribute to generating financial value. Consequently, it might be said that it is an Aristotelian necessity of the Aristotelian categorical “the business is sustainable” that Corporate Social Responsibility is limited to those activities that contribute to the maximisation of financial value. As argued in Chapter 5, this is essentially what Jensen (2002:78) refers to as “enlightened stakeholder theory”. He argues that this theory demands a “scorecard” which gives an objective measure of the financial contribution of any given initiative. However,

Jensen rejects the “Balanced Scorecard” approach which seeks to equate financial, social and environmental issues. Jensen’s objection is that balance requires a measure of equivalence that cannot be achieved. He claims that only direct financial evaluation will suffice and that, “Balance cannot ever substitute for having to deal with the difficult issues associated with specifying the trade-offs among multiple goods and bads that determine the overall score for an organisation’s success” (Jensen, 2002:83).

Figge et al (2002:274), however, suggest a manner in which balance can be achieved that involves financial equivalence. They note that environmental and social initiatives or demands are not integrated with the market mechanism in the manner that Jensen would require because, as they are essentially “social constructs”, they do not generally have market values associated with them. They point out that, not being integrated into the market process, they can be considered to be “externalities”. They go on to describe how such externalities can form an “additional non-market perspective” from which environmental and social concerns can have a strategic importance to the business.

Recall the argument of Chapter 5 that, in a eudaimonic State, externalities that involve participation and proximity can have a value to the state in terms of contributing to the creation of the capability of happiness. As such the State has a responsibility to pay businesses creating such externalities a sum representing the value created by them; such payment might take the form of Corporation Tax relief or direct subsidies. Consequently, if these “socially constructed” issues can be addressed in a manner that contributes to the capability of happiness they can be given a financial value that permits equivalence in the manner required by Jensen. In turn, this permits social and environmental responsibility to be considered as an Aristotelian necessity contributing to the Aristotelian categorical “the business is sustainable”.

The final Aristotelian categorical I have to consider that relates specifically to business is “the business sells goods and services”. As Sternberg (2000:42) points out this seems fairly uncontroversial. As noted earlier, she observes that businesses do not generate financial value through dishonesty or trickery or indeed any activity other than selling, and what they sell are goods and services. Furthermore, because it is an Aristotelian necessity that a business pursues the maximum financial value possible, businesses will seek to sell those goods and services which contribute the most to achieving that aim. In the context of a business that respects the principle of justice in exchange, that is it charges a fair price for its products, the ultimate determinant of which products to sell will be customer demand. Consequently, we might say that it is an Aristotelian necessity, concerned with the Aristotelian categorical “the

business sells goods and services” that businesses endeavour to understand the needs of their customers and to develop products that best meet those needs.

In addition to the five Aristotelian categoricals I observed that it is a characteristic of all living things that they reproduce. I suggested that, in the context of business, reproduction might be considered to take the form of diversification involving the principle of innovation. I also noted that effective innovation requires products that meet customers’ needs, internal collaboration between departments and an alignment of technological issues with those of the market. In essence this involves removing barriers between different groups of employees within the business and between the business and its customers and creating the conditions in which there is a free exchange of views and ideas between all involved. It might, therefore, be said that creating such circumstances is an Aristotelian necessity for the reproduction of businesses.

At this point it would be useful to summarise my findings in terms of the Aristotelian necessities that serve to create the Aristotelian categoricals, the possession of which is required to constitute a “good” business.

The Business has an owner

Articles of Association that require the unambiguous statement by the owner of the value she requires her business to generate.

The Business generates value for the owner

An AGM conducted so that it is inclusive of all owners, which provides owners with the information that they require in a form that they can readily understand and is conducted by a director who is open and forthcoming when responding to questions.

An audit of the business’s performance in terms of generating owner value, that is presented in a manner which is readily understandable by the owner and leaves no uncertainty about the performance of the business.

The Business generates sufficient financial value

Pursuing the maximum financial value possible.

The Business is sustainable

Accepting that the business has social and environmental responsibilities and addressing them in terms of their contribution to the capability of happiness.

The Business sells goods and services

Understanding the needs of their customers and developing products that best meet those needs.

The Business reproduces itself

Creating the conditions in which there is a free exchange of views and ideas between different groups of employees within the business and between the business and its customers.

A defective business is one that lacks one or more of the Aristotelian categoricals of the species which, in turn, involves lacking the appropriate Aristotelian necessities to create them. The pathology of business, therefore, might be concerned with identifying the causes of a business's failure to possess sufficient of the practices that constitute those Aristotelian necessities. An examination of the above table suggests that a principal cause of pathological businesses might be the presence of uncertainty. Uncertainty about the wishes of an owner in terms of the value her business is to generate; uncertainty about whether or not that value is actually being generated; uncertainty about the nature and consequences of the demands of society; and uncertainty about the requirements of their customers. Consequently, in order to create a healthy business the owner, or director, must seek to eliminate those uncertainties. An effective means of achieving this might be through the formation of partnerships.

In Chapter 5 it was argued that an appropriate means of creating externalities involving participation and proximity might be through the formation of partnerships between business and the local communities within which they trade. We might call these "eudaimonic partnerships". Chapter 3 described the local communities in question as being integrated with local government which in turn was in direct two way communication with national government. In this way any requirements which a community has of a business can be aligned with the needs of national government in discharging its responsibility for creating the capability of happiness for all its citizens. There are several benefits of entering into eudaimonic partnerships. Firstly, the various demands of a potentially diverse group of stakeholders can be consolidated into a number of agreed goals that are consistent with government strategy. In this way participating businesses can avoid having to deal with conflicting demands and be confident that any initiatives they take avoid Friedman's criticism that they are illegitimate. Secondly, the goals that the partnership agrees will reflect the wishes of the owners of the participating businesses. That is, the owner will have specified that

she wishes her business to enter into a eudaimonic partnership. Those wishes will therefore be unambiguous and the businesses' performance in terms of achieving them will be auditable. Thirdly, being in partnership with the community and achieving the goals agreed with it will mitigate the social and environmental threats to the businesses' sustainability that arise from a failure to acknowledge them. Fourthly, in accordance with the principle of externality, because the goals of the partnership contribute to satisfying the State's responsibility to create the capability of happiness, participating businesses are entitled to payment from the state that reflects that contribution and thereby mitigate the economic threats to their sustainability. Finally, the participation of employees of the business, together with members of the community, in a eudaimonic partnership, would facilitate product development and innovation, thereby enabling participating businesses to sell goods and services that better meet the needs of their customers and assist them in the process of reproduction.

In summary, I began this chapter by considering the reasons why businesses might be considered to be living things. Having established that treating businesses as being alive is a legitimate thing to do, I applied the principle that a "good" example of a living thing possesses all the Aristotelian categoricals of its species to which individual members are bound by Aristotelian necessities. I went on to identify the principal Aristotelian necessities of business and established that one of the primary causes of defective businesses is uncertainty. I concluded that, under certain circumstances, forming eudaimonic partnerships with local communities is an effective means of addressing such uncertainties. In Chapter 8 I will examine how such partnerships might be instantiated but before doing that I must address the question of the status of shareholders. In particular I must determine whether or not a shareholder can be considered to be an owner in the sense described in this chapter and if so how a shareholder might exercise the rights and obligations that I have argued ownership of a business entails. This will be the subject of the next chapter.

Chapter 7

Business and its Shareholders

In the previous chapter I considered the manner in which an owner can delegate the strategic management of her business to a director. I also examined the relationship that must exist between them if the business is to be considered a “good business” in the context of business as a living thing. In doing so I treated the owner and director as individuals. However, the majority of businesses, in the UK at least, are owned by shareholders and managed by boards of directors. In 2011 of the 2.08 million enterprises registered for VAT 58.9 percent were owned by shareholders, whereas those owned by sole-proprietors or partnerships represented 23.3 and 12.7 percent respectively (Office for National Statistics, 2011). In this chapter I will consider that majority of businesses which are owned by shareholders. In doing so, I will examine the basis of the relationship between shareholders and the businesses that they, collectively, are said to own and the directors who they appoint to manage them.

I begin by considering the status of shareholders and address the question of whether and to what extent they can be taken to be owners of the businesses in which they hold shares. In doing so, I will examine the requirements of the two principal classifications of shareholder; those who hold shares for their own purposes and those who hold shares on behalf of others. I will assess the requirements of these two classes of shareholder in terms of the value they require their shareholding to generate and the influence they are able to bring to bear on the management of the business in order to obtain this value. I will suggest that, within these two classes of shareholding, the value required from the business serves to create two different types of shareholder. These are the “Investor”, who can be conceived of as requiring the benefits of ownership from his shareholding, and the “Trader”, who has no interest in being an owner and sees her shares merely as a commodity which she can buy and sell at a profit.¹¹² I will go on to consider how both these requirements might be satisfied in the context of a “good” business. I will conclude by suggesting a system of share ownership that embodies the Aristotelian necessities of business, meets the needs of the two types of shareholder and promotes the sort of business that assists the eudaimonic State in achieving its objective of creating the capability of happiness for all its citizens.

¹¹² It should be noted that an individual shareholder could be a trader or an investor at different times or under different circumstances.

What, then, is it to be a shareholder? The Oxford Dictionary of English defines a shareholder as “an owner of shares in a company”. There is some suggestion that to own a share in a business is to be a part owner of the business and that, collectively, a company’s shareholders are its owners (Investopedia, 2013). However, it is not clear that this is strictly the case. The dictionary definition of “share”, in this context, is “one of the equal parts into which a company’s capital is divided, entitling the holder to a proportion of the profits”. On this understanding shareholders, collectively, only own the company’s capital, but is there any material difference between this and owning the company itself? Sison (2011) argues that there is. He claims that the only thing that shareholders own are their share certificates, stating that, in law, a corporation is its own owner. He justifies this claim by observing that shareholders “...cannot just walk into company premises and occupy a room or sell its furniture, for example. They simply hold shares that give them some rights. The value of these shares rests mostly on their selling price and dividends and hardly on the other attached rights which are seldom exercised” (Sison, 2011:5).

In addition, Sison differentiates individual shareholders from institutional shareholders, major corporate shareholders and managers who own shares in the businesses they manage. He suggests that, to varying degrees, the last three classes of shareholder have the ability and motivation to influence the conduct of business, whereas individual shareholders in general do not. He claims that because the individual shareholder has a minute holding of the total shares she will not usually bother to attend meetings or vote. Furthermore individual shareholders “...do not hold on to shares very long and sell them as soon as they think they’ll make a reasonable profit. They feel no further commitment to the firm, nothing deserving of the name of ownership” (Sison, 2011:5).

Sison’s various claims certainly have a ring of truth, but are they true? I will examine the various points he makes and attempt to answer this question. The main points seem to be that: a corporation owns itself; shareholders do not possess all the rights of an owner; there are different classes of shareholder who may have different rights and motivations; it is pointless for an individual shareholder to attend the AGM or vote; individual shareholders buy and sell shares over short timescales in order to generate a profit; individual shareholders are not interested in the manner in which businesses are conducted beyond that which influences their ability to buy and sell at a profit. In addition, Sison refers to individual shareholders as “ordinary shareholders” which could be interpreted as “holders of ordinary shares” rather than being all shareholders other than institutional, corporate or management. Ordinary

shares are a particular class of share and it would be useful, before commencing an examination of Sison's claims, to clarify the type of share held when I refer to a shareholder in what follows.

The majority of companies issue only one class of share which is the "ordinary share" but there are various other possibilities, two of the more common types being "preference shares" and "non-voting shares". Ordinary shares are characterised by carrying a single vote, participating equally in dividends and, in the event of the business being liquidated, sharing in the proceeds of the company's residual assets. By contrast, non-voting shares are similar to ordinary shares except that they do not confer the right to vote or attend AGMs and preference shares pay a guaranteed fixed dividend¹¹³ and often do not carry voting rights (Company Law Solutions, 2013). As the ordinary share is the only class of share common to all companies and is the principal class of share traded in the major stock exchanges further references to shareholders can be interpreted as holders of ordinary shares (unless stipulated otherwise).

Moving now to Sison's observation that, in legal terms, the corporation owns itself; to the extent that this is the case, it is likely to be a convenient means of addressing a complex reality. As noted above, the dictionary definition of a shareholder is one who owns a share of the capital of the business and one definition of "capital" in this context is, "The money, property, and other valuables which collectively represent the wealth of an individual or business" (WebFinance, 2013b). These are the material components of the business and as such, as noted in Chapter 6, can be dealt with by the owner in any manner he sees fit. This includes, *inter alia*, selling a company's furniture. The principal reason why a shareholder cannot do this is that, individually, he lacks the authority of the majority of shareholders to act in that way. In theory, shareholders could convene a meeting in order to pass a resolution that a company should sell its furniture and appoint an individual shareholder to oversee that process, which may involve that shareholder entering the company's property. In reality this is very unlikely to occur because the selling of furniture is usually a tactical matter and shareholders delegate strategic, and by extension tactical, matters to the directors who they appoint to manage the business on their behalf.

As observed in the previous chapter an owner may delegate the strategic management of her business to a director and it may be presumed that, collectively, shareholders do this because they lack the expertise and consensus to take on this role effectively themselves. Furthermore,

¹¹³Dividends must be paid out of profits so that payment of the guaranteed fixed dividend is conditional upon there being sufficient profit available.

in the previous chapter it was argued that, if we consider a business as being a living thing, human beings are a necessary component of business. In this sense, shareholders, who are the owners of the assets of a business, might be construed as being components of the business itself. As such the idea that shareholders own the business can be considered to be compatible with a legal conception of the business owning itself. In view of this, in theory at least, it appears that Sison is wrong in insisting that shareholders do not own the company. Consequently, as owners of the company, shareholders should possess all the rights of owners. The extent to which this is actually the case will be discussed later in this chapter.

Sison does seem to be at least partially correct in pointing out that there are different classes of shareholder who have different rights and motivations. However, by taking this claim at face value there is a danger of conflating two distinct concepts of shareholding. Firstly, as has already been noted, there are potentially numerous types of share which confer a number of different rights. However, only the possession of shares which confer the right to vote can be considered to endow their possessors with the status of ownership. Only those who can vote have the right to determine how the company's assets will be deployed. A business wishing to issue shares of whatever class must obtain the approval of the holders of the voting shares in order to do so. That is, the rights associated with other classes of share are derivative of the rights associated with voting shares. As ordinary shares represent the substantial majority of voting shares it seems reasonable to claim that ordinary shareholders constitute the owners of a company and in that respect all have equal rights.

The second method of classifying shareholders that we must be careful to differentiate concerns their status, considered independently of their shareholding. A basic distinction here might be between shareholders who are individuals and shareholders who are organisations of some description. A 2008 survey of the ownership of UK shares (Office for National Statistics, 2010) analysed shareholders under eleven separate categories which could be consolidated under the headings: individuals living in the UK, organisations based in the UK, and the rest of the world. The proportion of shares held by each of these groupings was 10.2%, 48.3% and 41.5% respectively. The composition of "the rest of the world" is not clear but for my present purposes it might be considered safe to assume that this mirrors that in the UK. The shareholding of UK organisations is dominated by insurance companies (13.4%), pension funds (12.8%) and other financial institutions (13.7%). The remaining 8.4% consists of charities (0.8%), private non-financial companies (3.0%), the public sector (1.1%) and banks (3.5%). In summary, the UK market for shares is dominated by financial institutions holding of the order

of 69% of the shares with individual shareholders owning approximately 17% and other organisations holding 14%.

What, then, can be said about the motivations of these various groups? It is probably safe to say that all shareholders are concerned with the financial value that their share ownership generates. However, their interest in the shares they hold differs according to the purpose for which their shares are held.

On the one hand, individual shareholders, charities and the public sector require the financial value that the businesses which they partly own generate, in order to fund their own individual projects. In Aristotelian terms, we might describe their shareholding as being concerned with the requirements of household management and describe them collectively as “direct shareholders”. Banks and private non-financial companies might be considered to be direct shareholders. The purpose for which they hold the shares can be assumed to be for the benefit of the business in terms of the strategy that its directors choose to pursue. That is, they do not hold shares with a view to generating financial value which they pass on to their clients.

On the other hand, the financial institutions are concerned with maximising financial value on behalf of their clients. The clients effectively pay the institutions for managing a portfolio of shares on their behalf. Consequently, although it is the institution that actually holds the shares, it is the clients who are entitled to benefit from the financial value generated. Understood in this way the financial institutions might be described as “intermediary shareholders”.¹¹⁴ That is, there are two types of shareholder: the direct shareholder who requires her shares to provide sufficient financial value for the purposes of household management, which, as we observed in Chapter 4, may be the maximum possible, and the intermediary shareholder who requires the maximum financial value possible to pass on to its clients.

Sison’s next point is that an individual shareholder, or in our terms a direct shareholder, has such a miniscule shareholding that he lacks the motivation to attend AGMs or vote. This is a claim that seems to be supported by research into attendance at AGMs. Catasús and Johed (2007), for example, found that, in a survey of 36 AGMs in Sweden, only 1% of shareholders eligible to attend did so. Hewitt (2011) surveyed attendance at shareholder meetings¹¹⁵ across

¹¹⁴ Banks may be involved in holding shares on behalf of clients in which respect they would be classified as financial intermediaries.

¹¹⁵ AGMs and EGMs.

the OECD member countries and found that they ranged from 98.45% in Slovakia to 38.1% in Denmark. The attendance figure for Sweden was found to be 52.82%. It is not possible to compare these figures directly because Catasús and Johed reported attendance in terms of shareholder numbers whereas Hewitt's attendance figures represent the percentage of issued share capital held by those attending. Furthermore, Catasús and Johed relied on a sample size which was much smaller than that of Hewitt. However, if we do attempt, in general terms, to compare the figures for Sweden obtained by Catasús and Johed with those obtained by Hewitt we might draw the (very tentative) conclusion that those attending the Swedish AGMs represent one percent of total shareholders yet hold more than half of the issued share capital of the businesses in question. This suggests that attendance at AGMs is strongly biased towards intermediary shareholders and that, for whatever reason, direct shareholders are not motivated to attend.

As owners of businesses shareholders are, generally speaking, entitled to treat their property as they wish and this includes not attending AGMs or voting. However, voting at the AGM is the mechanism by which the owners of the business inform the directors of the value they require their business to generate and hold the directors responsible for effectively achieving that value. In addition, as was argued in Chapter 6, a business in which the owner does not stipulate the value he wishes to receive is necessarily a defective business. Consequently, it might be thought to be in the interest of promoting "good" business to identify the obstacles to shareholder voting and seek to eliminate them so as to bring about an outcome that, as closely as possible, represents a consensus of all shareholders.

It may be that Sison is correct in identifying the small size of direct shareholding relative to that of the intermediary shareholders as the principal cause of apathy amongst direct shareholders when it comes to voting. Maclean (1999) offers the example of the 1995 AGM of British Gas to illustrate the impotence of direct shareholders in exercising influence over the actions of directors. She points out that:

...despite a remarkable turnout of 4,600 shareholders, four members of parliament, a pig named Cedric (after the chief executive), and numerous placards bearing messages about 'getting snouts out of the trough', individual shareholders were ultimately powerless to punish the board for its inflated executive pay awards in the face of accommodating institutional investors whose block votes were used to rubber-stamp board policy (Maclean, 1999:107).

This relatively weak position of direct shareholders in terms of exercising their rights of ownership appears to be exacerbated by the relationship that exists between shareholders and directors. Catasús and Johed note that a number of commentators have suggested that meetings held between intermediary shareholders and the management of the business are more important than the AGM in respect of the influence that owners can exert over the direction of their business. This, they claim produces a state of affairs whereby, “The governance of the company is subjected to significant influences outside the AGM and without the involvement of most shareholders” (Catasús and Johed, 2007:171). This claim is supported by Hendry et al. who observe that, “Individually and collectively, the institutions are the dominant shareholders of most large, listed corporations and the primary focus of these corporations’ shareholder communications” (Hendry et al., 2006:1102).

It does not seem inappropriate for owners to meet with the managers of their businesses in order to influence matters of governance. The concern is that such opportunities are only available to intermediary shareholders and, of them, only those with the largest holdings. However, even these large intermediary shareholders may lack significant influence. de Graaf and Slager (2006) suggest that in order to influence directors in matters such as the impact of business on climate change two requirements must be met. Intermediary shareholders must combine with each other in order to achieve a “critical mass” that even the largest of intermediary shareholders is unlikely to possess alone, and they must apply principles of conduct that are generally accepted as being appropriate to the matter in question.

The need for these two requirements to be met may be behind the formation of shareholder representative bodies. Graves and Waddock (1990) point out that, in the United States, a number of pension funds combined to form the Council of Institutional Investors (CII). They cite the CII as describing themselves as encompassing “...marketwide corporate governance and public policy issues that affect funds’ assets and that members’ increasing clout enables them to influence” (Graves and Waddock, 1990:78). In the United Kingdom a similar function is served by, *inter alia*, the National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI). In addition the Pension and Investments Research Consultancy (PIRC) provide a service to intermediary shareholders generally, describing themselves as, “...the UK’s leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility” (PIRC, 2010). There are also organisations in the UK such as ShareSoc, which “...supports individuals who invest

directly in the stock market....by promoting [their] rights to companies and by seeking to influence Government and regulatory policy” (UK Individual Shareholders Society, 2013).

There is, though, a significant difference between organisations representing intermediary shareholders and those representing direct shareholders and this concerns “proxy voting”. Proxy voting is a practice by which organisations representing intermediary shareholders will, for a fee, monitor the businesses in which the intermediary has shares and vote on their behalf. Direct shareholders, however, do not appear to have this facility. Their options, in terms of influencing management, seem to be limited. One recent guide to shareholder activism suggested that there were only four courses of action available to direct shareholders (Eley, 2013). These were: keeping up to date with corporate governance issues by following any advice published by PIRC or the other similar organisations; contacting your fund manager in the event that your shares are held in an investment fund, although it was acknowledged that this is unlikely by itself to produce any material results; exercise your right to vote if the shares are held in your own name; finally, attend the AGM and make your views known.

The above measures do not appear to give the direct shareholder much influence in the conduct of the business in which he is a part owner, suggesting that Sison’s claim that individual shareholders have no power in this respect is true. However, in the United States there is a particular and widespread form of proxy voting called “broker voting”. This seems to have a significant influence on the level of voting at shareholder meetings and might be adapted to suit the needs of direct shareholders. Hewitt explains that one of the reasons why there appears to be a relatively high voter turnout in the United States¹¹⁶ is “...the practice of ‘Broker voting’, under which brokers (a significant player in the US system) are authorised to vote ‘noninstructed’ shares under their street name” (Hewitt, 2011:16).

Wilcox et al (2006) explain that, for purposes of convenience that I will consider later, the majority of shares in the United States are registered in the name of “Cede & Co.” which is a name used by the Depository Trust Company (DTC). Such shares are referred to as being held in “street name”. The DTC are the legal owners of shares held on behalf of institutions and their clients who are the beneficial owners of the shares. As legal owners of the shares the DTC have the right to vote at shareholder meetings which they do under instruction from their clients. However, under certain circumstances,¹¹⁷ if the DTC have not received instructions

¹¹⁶ Representing 81.78% of issued share capital.

¹¹⁷ If there has been no instruction given ten days prior to the vote and the proposal to be voted on is deemed to be routine.

from particular clients as to how to vote they can vote in a manner which they judge to be appropriate, thereby creating a form of block vote. These are the “noninstructed shares” to which Hewitt refers.

Street name voting and proxy voting in general have attracted significant criticism regarding conflict of interest which I will consider later in this chapter.¹¹⁸ However, for the present it should be noted that it does seem to have a significant effect. Not only, as Hewitt suggests, does it seem to increase voting levels, it also serves to aggregate those votes. Consequently, if an organisation, such as ShareSoc, were to be established, with powers similar to those of the DTC, it may serve to make direct shareholders a powerful force in terms of corporate governance, thereby avoiding Sison's criticism. Such a possibility will be considered in more detail later in this chapter.

Sison's penultimate point concerning the status of direct shareholders is that they tend to buy and sell shares over short timescales in order to generate a profit. Sison's implication is that transient shareholders do not correspond with a description of an owner and consequently should not be granted such status. As the short term nature of much shareholding is widely considered to be a significant problem for the “good” conduct of business I will give the matter some consideration. Lowenstein (1988) points out, in respect of the United States, that it was only after the 1920s that private citizens began to acquire shares in businesses in any significant number. He suggests that, prior to that, shareholder's principal interest in the shares they owned was the income they generated and the potential for dividend growth. The question of capital growth through share price appreciation was very much a secondary consideration. Their attitude was “...as if they were buying into a private business, and with the...intention to hold for an indefinite period” (Lowenstein, 1988:13). That is, they clearly exhibited the characteristics of an owner.

However, as share ownership increased in popularity the tendency towards speculation also increased. In these circumstances share price movements became important and shareholders were not interested in exercising their voting rights. As Lowenstein puts it, “The public quite clearly had not bought stocks in order to monitor managements” (1988:22). This produced a mix of shareholders. Some held shares as long term investments whereas many bought and sold shares speculatively. However, this state of affairs did not pertain only to direct shareholders. Lowenstein describes the 1980s as a period of very active stock market

¹¹⁸ The question of what is routine in this context renders “Street Name” vulnerable to manipulation and this will be addressed later in this chapter.

speculation in which “...professional investors, including the pension and mutual funds...” were major players (1988:30).

This seems to be a state of affairs that continues today. As observed earlier, financial institutions own nearly seventy percent of the shares of UK listed businesses. Furthermore, Hendry et al suggest that “...the principal activity of institutional investors appears to consist not so much in holding shares as in buying and selling them” (Hendry et al., 2006:1103). This suggests that Sison’s objection to the status of ownership being conferred on direct shareholders could be extended to intermediary shareholders. However, things are not this clear cut. It seems that there may be conflicting pressures on intermediary shareholders such that many are required to engage in short term transactions, whilst being encouraged to hold shares in the long term and to take on the responsibilities of ownership.

Graves and Waddock (1990) point out that there are considerable pressures on intermediary shareholders to take a short term perspective of their investments. They suggest that one of the principal causes of this is that financial institutions in general and pension funds in particular are subject to close scrutiny. It is frequently the case that the performance of a pension fund is evaluated by consultants on a three monthly basis such that it is only the short term value of the shares owned by the fund that is of interest. They observe that, “A 1985 survey of large institutional owners showed that only four percent considered the quality of a company's product (normally an important factor in long-term competitiveness) in selecting stocks for their portfolio” (Graves and Waddock, 1990:76).

Hendry et al. (2006) conducted a series of face to face interviews with both investment fund managers and the managers of the businesses in which they invest. One of their principal conclusions was that fund managers generally see themselves not as owners of a business but as traders in the shares of that business and “... whose interest in the actions of managers is governed more by a desire for trading information than by any desire to enhance company performance” (Hendry et al., 2006:1103). This view of financial institutions and the attitude to the businesses in which they hold shares is summed up by Graves and Waddock who quote George Keller, the then chairman of Chevron, as describing institutional owners as being “traders, not investors - eager to dump a stock for a quick profit without regard for the consequences” (Graves and Waddock, 1990:77).

However, there are pressures on intermediary shareholders that tend to create an opposite effect. Some investment funds have holdings that are so large that selling them and replacing

them with better performing shares is not straightforward. Graves and Waddock illustrate this by quoting John Neff of Vanguard Group, which is one such financial institution. Neff points out that “The traditional response was to vote with your feet ... but you can't do that anymore. The size of our position is such that it's hard to get out of some of our positions. The alternative of trying to alter management is sometimes necessary” (Graves and Waddock, 1990:77). This internal pressure to engage with, and accept some of the responsibilities of ownership towards, businesses in which intermediary shareholders have a holding is supplemented by an external pressure. Hendry et al. perceive this pressure coming from two sources, from the clients of the financial institution and, in the UK at least, from government. They point out that, “In recent years, the UK government had pressed the view that institutional shareholders should be responsible owners. It had also imposed voting and policy requirements on pension funds.” In addition, “Engagement and intervention on corporate governance issues had become both a competitive necessity when pitching for clients and a prominent component of the accepted industry best practice” (Hendry et al., 2006:1112). However, this does not seem to suit the skills of the fund managers who are responsible for accommodating these demands. Hendry et al. quote one such manager as observing that, “We’ve got a whole bunch of people who were just quite good at picking stocks, who couldn’t run a company to save their lives, who are now sitting there telling corporate UK how to run itself: it’s bizarre” (Hendry et al., 2006:1112).

These observations seem to give considerable support to Sison's final claim that shareholders, individual or not, are not interested in the manner in which businesses are conducted beyond that which influences their ability to buy and sell at a profit. The picture that emerges seems to be two classes of shareholder, direct and intermediary, with two different motivations, to invest or to trade. Furthermore, it seems that it is trading that predominates.

With this I have completed my evaluation of the arguments that Sison deployed in order to support his claim that shareholders cannot be considered to be the owners of the businesses in which they own shares. Before proceeding it would be useful to attempt to summarise the findings as follows:

A corporation owns itself

Shareholders own the assets of a business and are themselves components of the business. Thus it can be said that the statements “a corporation owns itself” and “shareholders own a corporation” can both be true.

Shareholders do not possess the rights of an owner

Holders of ordinary shares have the right to vote on matters concerning the conduct of the business including appointing a board of directors. Shareholders are presumed to delegate all strategic matters to their board of directors. Boards of directors are required to use their best efforts to generate value for their shareholders. Owners have the right, which cannot be delegated, to stipulate the value they require their business to generate. Therefore shareholders can be considered to possess all the rights of owners if, and only if, there exists a mechanism whereby they can unambiguously state the value they require their business to generate.¹¹⁹

Different classes of shareholders have different rights and motivations

Ordinary shareholders are the owners of the business and all have identical rights. Through the mechanism of voting, ordinary shareholders can create other classes of share which may possess a variety of rights. Ordinary shareholders can be divided into two main groups; investors and traders. Investors wish to obtain capital and dividend growth from their shares whereas traders seek to generate a profit by buying and selling shares so as to take advantage of price fluctuations. As a consequence, traders are inclined to take a short-term perspective, whereas investors are more concerned with the long term performance of their business.¹²⁰

It is pointless for an individual shareholder to attend AGMs and to vote

Because of their relatively small shareholdings individual shareholders have little influence over the manner in which their directors conduct their business. Intermediary shareholders have significant influence including the opportunity to meet with directors outside the context of the AGM. Intermediary shareholders have access to a system, involving representative organisations and proxy voting, by which their votes may be aggregated, thereby further increasing their influence. Direct shareholders, particularly individual shareholders, do not have access to such a system. Consequently many individual shareholders may experience frustration or apathy in terms of their ability to influence the conduct of their businesses.

¹¹⁹ A shareholder, as one of many, has the right to have her requirement concerning the value she requires the business to generate recognised and taken into account. However, she does not have the right to have it implemented. The collective requirement of the shareholders, which is binding on the business, would be determined through the process of voting.

¹²⁰ This does not preclude the possibility of a particular person behaving as a trader and an investor at different times or under different circumstances. For example, a shareholder who bought shares in order to trade them may subsequently decide that it was to his advantage to hold them as an investment and vice versa.

Shareholders buy and sell shares over a short timescale in order to generate a profit

There are two principal reasons for holding shares. Shares can be held as investments in order to obtain long term gains or they can be traded in order to take advantage of short term price fluctuations. The majority of intermediary shareholders tend to hold shares predominantly in order to trade them.

Shareholders are not interested in the conduct of business beyond their ability to buy and sell at a profit

In general those who wish to trade their shares do not want the rights or obligations of ownership. There is pressure from government and the clients of intermediary shareholders for them to become involved with matters of corporate governance. Shareholders in general lack the knowledge and expertise needed to be responsible for the conduct of business.

In the previous chapter I argued that a “good” business must have an owner who may delegate responsibility for the strategic management of the business with the exception of the value the business is to generate, which he must stipulate himself. In order that shareholders are able to fulfil this role I must attempt to resolve the “problems” that the above analysis has identified. Furthermore, in Aristotelian terms, in doing so I should attempt to preserve as many as possible of the views of “the many and the wise”.

The problems, expressed in terms of the requirements that a suitable model of shareholding must satisfy, might be stated as follows:

1. The model must accommodate the requirements of both investing and trading.
2. Primacy must be given to the holders of ordinary shares.
3. Small shareholders must have the opportunity to contribute to influencing the conduct of the business.
4. The strategic management of the business must be fully delegated to its directors.
5. Shareholders must have the ability to stipulate the value they wish their business to generate.

Beginning with the first problem: as claimed in Chapter 6, having an owner and being sustainable are two of the Aristotelian categoricals of business. As Sternberg observes, “Owner value is normally to be maximised on the assumption that the business will be around to reap the consequences of its current actions” (Sternberg, 2000:54). From this we might conclude that a “good” business has an owner who takes a long term perspective in respect of the conduct of his business. Furthermore, in the context of a corporation, shareholders, as owners,

can be presumed to delegate responsibility for the strategic management of the business to its directors. Consequently, a good corporate business will require shareholders and directors to share a concern for its long term conduct. This conclusion is supported by the comments of corporate managers interviewed by Hendry et al. who all made observations confirming that they "...saw their own job as being to create long term shareholder value" with one manager commenting that, "you have to be careful that you're not driven short-term." (Hendry et al., 2006:1118).

It also appears that the view that shareholders should be concerned with the long term conduct of their businesses is held by government. As noted above, Hendry et al. (2006:1112) point out that the UK government has attempted to apply pressure, legislative and otherwise, in order to encourage shareholders to become more involved in issues of corporate governance. Lowenstein comments that, "Keynes proposed that we consider a tax on stock turnovers to force investors to adopt a longer-term horizon" and that in the United States Warren Buffett, a prominent businessman and investor, proposed, "...to tax at 100 percent all gains from the sale of stocks or derived securities held for less than a year..." (Lowenstein, 1988:85,86). Issues concerning taxation will be considered in the next chapter but for now it is sufficient to note that there is a widespread belief that it is good for business that shareholders and directors share a long term perspective.

The long term perspective does not, however, seem to be the "holy grail" of shareholding. Some suggest that in order to function correctly the stock market requires traders whose short term buying and selling activities determine share price. Hendry et al. observe that:

In 11 of the 14 interviews, managers made the point that institutional investors, by trading actively in their shares, effectively set the price of those shares, and that an 'accurate' or 'fully valued' and above all stable price was an essential resource for the company, not only for expansion and raising capital but for the effectiveness of incentive schemes and the maintenance of staff morale (Hendry et al., 2006:1117).

This idea is supported by Lowenstein who points out that: "It is generally assumed that, without speculators, there would not be enough trading to oil the wheels of investment; stocks could be sold only at intolerably infrequent intervals and at intolerably unpredictable prices..." (Lowenstein, 1988:26-7). Consequently, it seems, in order to permit businesses to flourish we require a mix of investors and traders. The former provide the long term

perspective of ownership whereas the latter create the necessary environment of the stock market. This leads me to my second problem, the primacy of ordinary shares.

The major stock markets deal predominantly in the ordinary shares of private companies. These shares carry voting rights which, as observed above, confer the status of part owner of the business on the owner of the share. This seems entirely appropriate in respect of investors whose long term perspective seems to qualify them for such status. However, traders, as owners of ordinary shares, however briefly, also have the status of part owner of the business. This seems wrong given that, in a “good” business, the owner must take a long term perspective. It also appears that it is a status that the traders themselves do not want. Hendry et al. (2006) observed, during the course of their interviews with intermediary shareholders who were engaged in trading, that traders do not wish to influence the conduct of the business in which they hold shares. Rather, Hendry et al suggest that, in the majority of cases, what is important to intermediary shareholders is knowledge of the capabilities of the management team of a particular business and its likely consequences in terms of share price.

It appears that many traders do not wish to influence the conduct of a business, but merely to understand it. They make their profits from predicting share movements, whether they are up or down is not important. As Hendry et al. observe, “From this perspective, information to the effect that the company was being badly managed was just as good an outcome as information to the effect that it was being well managed...” (Hendry et al., 2006:1110). Furthermore, it appears that not only is some information unnecessary to enable traders to achieve their profit goals it could serve to obstruct them. Hendry et al. observed that, “Several interviewees noted explicitly that as investors they did not actually want any privileged or inside information, which would prevent them from dealing” (Hendry et al., 2006:1110).

If the behaviour of traders is such that they do not qualify for the status of owner and in addition they do not want such a status, it seems appropriate to remove the right to vote which confers that status. One obvious solution might be to restrict trading activities to non-voting shares. However, there seem to be, at least, two significant difficulties with this approach. Firstly, it requires a sharp distinction between investor and trader which, at the point at which the shares are acquired, might be difficult to establish. Secondly, having a class of non-voting shares which are widely traded may have the effect of destroying the market in ordinary shares. This would have the counterproductive effect of further reducing the role of shareholder as owner.

An alternative solution might be to introduce a qualifying period of share ownership during which there were no voting rights, with voting rights vesting after, say, twelve months. This would preserve the market in ordinary shares and allow the trader/investor distinction to be resolved by the “effluxion of time”. However, this solution brings with it complications of its own. One criticism might be that it would be difficult to administer, requiring a body, or bodies, to be responsible for monitoring entitlements to vote in a fast moving market, involving an enormous number of transactions, on behalf of shareholders who are not interested in voting anyway. It might also be claimed that, if the majority of shares are held for less than the vesting period, it would have the effect of reducing, rather than increasing, the level of shareholder voting. These are serious criticisms which I will endeavour to resolve in addressing the third of my five “problems”; the need for small shareholders to feel that they have some influence over the conduct of the business.

Earlier in this chapter I briefly examined the practice of holding shares in “street name” which is common in the United States and which Hewitt (2011) suggested may be instrumental in achieving higher levels of voting. Under this system large brokers are the legal owners of shares which they hold on behalf of their clients who are the beneficial owners. The broker, as legal owner, has the right to “vote the shares” and the client, as beneficial owner, has the right to the value that those shares generate.

Under the American system the broker must vote in accordance with the instructions of the client unless two conditions prevail. These are that the client has not given the broker voting instructions at least ten days before the vote is due to take place and the proposal to be voted upon has been deemed “routine” by the New York Stock Exchange.¹²¹ Under these circumstances the broker may use his discretion as to how the vote of these shares is exercised. In this manner votes are registered that otherwise may not have been.

Although increased levels of turnout are a consequence of this arrangement Wilcox and Choi (2006) point out that this was not part of its original purpose. They suggest that originally it was intended to achieve three objectives; facilitate trading, eliminate paperwork and hide the identity of the beneficial owners.

The first two of these objectives might serve to avoid the criticisms noted above in connection with a voting rights vesting period. Wicox and Choi (2006:12-6) give an explanation of the mechanism of transfers of share ownership which could be adapted to meet my requirements

¹²¹ Non-routine proposals are such as those concerning takeovers and mergers or the issue of additional shares.

in the following manner. Consider two shareholders A and B who are clients of broker C who holds shares on their behalf in “street name”. Suppose A wishes to sell 1000 shares in corporation D and B wishes to buy them. Furthermore, suppose that those shares are a part of a total of 10,000 D shares held by C on behalf of all of its clients. In this arrangement C is the legal owner of the 10,000 D shares and A is the beneficial owner of 1000 of them. Consequently, when A wishes to sell his D shares and B wishes to buy them the transaction can be completed simply by C transferring the beneficial ownership of 1000 of its 10,000 D shares from A to B. As, throughout, C remains the legal owner of the shares the transaction does not bring about a loss of voting rights on the shares. As the legal owner, C may vote on all the 10,000 D shares it holds. As the new beneficial owner, B has the right to instruct C how he wishes it to vote in respect of his newly acquired 1000 D shares.

Let us now suppose that we apply the vesting period requirement to the right of instruction such that until B has held her shares for twelve months she does not possess the right to instruct C how to vote. Under these circumstances, should a vote be required, C may vote on behalf of B at its own discretion. Once the vesting period has passed however C must vote in accordance with B’s instructions. In this manner the rights and obligations of voting are only conferred on long term shareholders without the danger of leaving businesses without an effective owner. Furthermore, such an outcome can be achieved without the need for excessive administration.

However, there are serious criticisms of the practice of “street name” registration, some of which extend to the practice of proxy voting which is employed in the UK and which were discussed above. Bethel and Gillan (2002) identify three major concerns that arise from a broker exercising the uninstructed right to vote. Firstly, there is a significant concentration of power in the hands of the broker such that it can have a major influence over the conduct of the business. Secondly, there is a potential for a conflict of interest between the manner in which the broker votes and, in my terms, the value which the shareholder requires from his business. Thirdly, the management of a business has the ability to frame proposals such that they can be classified as routine, thereby facilitating uninstructed voting in circumstances where they believe brokers may be sympathetic to their plans. These criticisms must be confronted if the model of shareholding developed in this chapter is to be robust.

To differentiate the model of shareholding defended here from the practices of street name or proxy voting call it “representational voting”. How does representational voting escape the above criticisms? The first criticism, that of the concentration of power, concerns an outcome

that has been advocated here as a possible solution to the problem of small shareholder impotence. That is, it is not necessarily a bad thing. The circumstances that render it unacceptable are those described in the second criticism. The concentration of power is only a problem if it influences the conduct of a business such that the outcome is inconsistent with the best interests of its beneficial shareholders. If the representative organisation, as the legal owner of the shares, votes in accordance with the best interests of its members, the beneficial owners, the criticism would be avoided. In such circumstances there would also be no benefit to management in terms of the classification of proposals as either routine or non-routine. In either case voting would exclusively represent the best interests of the beneficial shareholders.

Avoiding the above criticisms, therefore, involves ensuring that the representative organisations are aware of, and act on, the wishes of the beneficial owners of shares who are their members and who do not qualify, or do not wish, to give instructions on how to vote. A means of satisfying this requirement might be found in The Financial Reporting Council (FRC) Stewardship Code. “The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment” and “The FRC is accountable to Parliament and its wide range of stakeholders” (Financial Reporting Council, 2012a). As part of its responsibilities it has produced a “Stewardship Code”. This is a code of conduct concerning the responsibilities of intermediary shareholders towards both their clients, on behalf of whom they hold shares, and to the business whose shares they hold. The code involves seven principles intended “...to protect and enhance the value that accrues to the ultimate beneficiary”. The principles are:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

(Financial Reporting Council, 2012b:5)

If these principles were to be applied to representative organisations, as I have conceived them, they might be described as follows:

They are the legal owners of the shares which they hold on behalf of their clients who are the beneficial owners of those shares.

They engage with the businesses whose shares they hold through, *inter alia*, meetings with management in order to promote good corporate governance and to safeguard the interests of their clients.

They publish their general policy on corporate governance and relate it specifically to each business in which they hold shares.

They vote on the shares they own in accordance with the instructions received from their clients.

In the event that their clients are within the vesting period¹²² or have given no voting instructions, they vote according to their published policy in respect of the business in question.

They attend the AGM of the business in order to represent the interests of their clients.

They publish details of how they have voted and explain any variations from their stated policy.

It might also be presumed that representative organisations would specialise in the needs of particular groups of shareholder much as do the likes of the Association of British Insurers or the National Association of Pension Funds. This would entail the need for organisations, similar to ShareSoc, which meet the particular needs of individual shareholders. Shareholders would thereby be able to express their wishes in terms of the businesses in which they hold shares by joining the representative organisation whose published policy best meets their needs, or indeed by not joining any such organisations.

It might be said that the concept of “Representational Organisations” is a significant departure from the Aristotelian basis of this thesis. Aristotle's conception of the good life left no room for alternatives that needed to be voted upon and the citizens of the ideal *Polis* had no need of representatives to ensure that their wishes were carried out. For Aristotle, the happiness that

¹²² That is, they have been beneficial shareholders in a particular business for less than the period required to qualify for the right to stipulate voting requirements.

all men seek is grounded in the exercise of virtue in the context of participating in the government of the *polis* and, therefore, all citizens of the ideal *Polis* might be expected to wish to participate in some role or other. Consequently, it appears that all that was required was a form of administration that enabled all citizens to participate.

As such, it might be thought that there was no requirement for representation. Furthermore, there would be no need to vote on how the *Polis* should be governed because its purpose is to enable its citizens to acquire and exercise virtue and Aristotle clearly defined what virtue is and how it is to be acquired. Nonetheless, it appears that representation may have been a feature of the typical *Polis* of Aristotle's time.

Vieira and Runciman (2008:loc 232) make the point that although there was no word in Ancient Greece for "representation" there were important practices taking place that we might now describe as being a form of representation. As was observed in Chapter 2, the government of the *polis* was based on the principle of "Ruler and Ruled". This duality of roles also fulfilled dual purposes in terms of the acquisition and exercise of virtue. Citizens in both the roles of the ruler and the ruled participated in government thereby exercising and developing their virtue and contributing to their happiness. However, in addition, the ruler was, in part, responsible for creating the optimum conditions for participation and the various offices of the *polis* were filled by the means of appointing citizens who were considered to be best qualified for this. As such, the election of citizens to these offices might be interpreted as the appointment of representatives or "agents" who possessed skills which were lacked by the other citizens and which were instrumental in their pursuit of happiness.

Vieira and Runciman (2008:loc 1213) suggest that this simple form of representation has a number of requirements: there are three parties involved who are the principal, the agent and a third party; the principal is involved in some way in the actions of the agent; finally, the agent mediates with a third party on behalf of the principal. If we were to apply this conception of representation to the *polis* we might describe it as follows. The citizen elected to a particular office acts as an agent for individual citizens, each of whom is a principal. In his role as agent the elected citizen creates the circumstances in which the principal must participate in order to achieve happiness. In creating these circumstances the elected citizen, as agent, must obtain the cooperation of the citizen body as a whole who, consequently, might collectively be described as a third party.

If we accept that a form of representation such as that described above could be considered to be Aristotelian, or at least compatible with Aristotle's thinking, I should compare it with the concept of representational organisations proposed above. The first thing that should be noted is that representational organisations are largely concerned with the principle of voting, whereas it does not appear that voting was a feature of the *polis*. As observed in Chapter 2, citizens were elected to office by consensus or, if this was not possible, by a drawing of lots. Consequently, voting does not appear to be, explicitly, Aristotelian and therefore may not be compatible with a strictly Aristotelian approach. However, the approach developed in this thesis has diverged from that of Aristotle in two important ways. Firstly, as noted in Chapter 2, for various reasons Aristotle advocated a system of government involving a relatively small and elite citizen body, whereas the approach taken here involves all members of a State being accorded the status of citizen with equal rights. Secondly, Aristotle's approach was normative in that it involved a specific conception of happiness, whereas the approach taken here is meta-normative involving the capability of happiness. The conception of a eudaimonic State defended above involves citizens being provided with the capability of achieving an essentially Aristotelian conception of happiness, but free to pursue whatever form of happiness they choose. These two deviations from the strictly Aristotelian approach create a significant degree of complexity in terms of citizen numbers and their right to pursue a plurality of conceptions of happiness. Consequently, the principle of voting might be considered as a means of making this situation more tractable. However, the concept of representational organisations themselves might be interpreted as placing this complex situation on a more Aristotelian footing.

The Idea of representational organisations as we have considered them might be described in terms of a simple agent-principal representation. The individual shareholders are the principals and the representational organisation is the agent, mediating on their behalf with the board of directors who are the third party. The representational organisation, as agent, uses its expertise, and the authority vested in it by the principal, to influence the manner in which the directors conduct the business and, thereby, endeavour to secure the value that the shareholders require from their business.

On the face of it this does not seem to be a particularly Aristotelian arrangement. However, if the value that the shareholders require from their business is for it to contribute to the capability of happiness, that is, they require their business to be eudaimonic, a different interpretation can be applied. Under these circumstances the business is assisting the state in

meeting its responsibility to create the capability of happiness for all its citizens and, consequently, those participating in it might be interpreted as participating in the government of the State, as were the citizens of Aristotle's ideal *Polis*.

Furthermore, as observed in Chapter 4, eudaimonic businesses create networks such that all their stakeholders have the opportunity to participate. Consequently, we might interpret all stakeholders, including shareholders, as equating to citizens of the *Polis*. Applying these interpretations to the idea of representation in the *Polis* discussed above allows us to obtain an Aristotelian conception of representational organisations. The individual stakeholders equate to citizens and are the principals. The representational organisation can be considered to be the agent, elected on the basis of the possession of particular skills required for creating the capability of happiness. The directors would then become the agent of the representational organisation, appointed because of their skill in the strategic management of the business and charged with contributing to the capability of happiness whilst ensuring the sustainability of the business. The stakeholders, as the body of citizens, would be the third party whose participation would be required in order to create the capability of happiness. Not only can this arrangement be equated to that of Aristotle's ideal *Polis*, the happiness in question, the capability for which is being created, is identical with Aristotle's conception of happiness interpreted as a sufficiently populated eudaimonic field.

Having established that representational organisations can be understood in a manner that is, at least, consistent with Aristotelian principles the argument can progress. In seeking to influence the conduct of businesses by representational organisations it is important to understand what is legitimate in this respect, which brings to the fore the fourth of the problems that must be resolved.

As shareholders are presumed to lack the expertise necessary to manage the business, the strategic management of the business must be fully delegated to its directors. The exception to this is the responsibility to stipulate the value which shareholders, as owners, require the business to generate, which will be addressed shortly. It might be said that there are three components to such a process of delegation: appointing a director or directors; agreeing the basis on which the directors are to be rewarded; and monitoring the performance of the directors in carrying out their responsibilities.

Over recent years there has been considerable discontent amongst shareholders concerning the conduct of directors. Much of this has concerned excessive rewards for what has been, in

many cases, poor performance. In the UK this prompted what has been called the “shareholder spring” which resulted in the government issuing a consultation paper on the subject (Department for Business Innovation and Skills, 2012a).

At the time the consultation paper was issued voting on remuneration was merely advisory, the directors were expected to take note of the vote but were not compelled to act upon it. The consultation document noted that, on the one hand, many shareholders felt that there was a need for greater simplicity, transparency and accountability in linking pay to performance. Whereas, on the other hand, many directors preferred to have the flexibility to set remuneration at levels necessary to attract high calibre executives. The document refers to the comments from a company listed in the FTSE250 which, despite a 29 percent vote against its remuneration report, merely suggested that the majority of shareholders recognised this need for flexibility. One chief executive of a FTSE100 company was reported as saying, “This strikes me as being a matter of excessive micro managing” when shareholders recorded a 42 percent vote against his company’s remuneration report (Department for Business Innovation and Skills, 2012a:15).

The principal proposals made in the consultation document are that there should be a mandatory vote on remuneration policy, with an advisory retrospective vote on actual remuneration paid. I should, therefore, relate these provisions to my conception of a director as a proxy owner to whom the shareholders, as owners, have delegated responsibility for the strategic management of the business.

The first point that needs to be established is that the shareholders and the directors have entered into a planner/doer relationship concerning the strategic management of the business. As was argued in Chapter 2, if such a relationship is to be “natural” it must involve an agreed goal, an agreed means of measuring the contribution made towards achieving that goal and an agreed reward in respect of that contribution. The goal that is to be aimed for might be considered to be the value that the owner requires his business to generate. The contribution made towards that goal could then be considered to be the overall performance of the business, determined by whatever measures are felt appropriate, and the reward would be a remuneration package based on those measures.¹²³ It might be said that, in establishing such a planner/doer relationship, shareholders are establishing the contractual terms of a director’s appointment. This principle is supported by an analysis of responses to the consultation document, which suggested that, “Many felt that a shareholder vote on contractual terms is

¹²³ These are often Total Shareholder Return and Earnings Per Share.

the best way to prevent payments for failure” (Department for Business Innovation and Skills, 2012b:6).

However, responses to the consultation document also suggested that there was a need for flexibility in the terms of the contract. “Many [respondents] felt that remuneration committees need the flexibility to pick measures that were right for the company. They should also be flexible, so companies could change them when they needed to” (Department for Business Innovation and Skills, 2012b:12). This suggests that there is an element of the director’s contract that could be considered to be strategic in nature. Consequently, as the purpose of the contract is to delegate responsibility for strategic matters to the director, it might be considered that some elements of the contract should not be subject to shareholder control. The sole concern of the shareholders should be the extent to which the value they require from the business has been generated and that remuneration paid to directors is in accordance with their contribution in that regard. If, however, payments can be shown to be inconsistent with contribution made it seems that there should be remedies available to shareholders.

Given the above arguments, it would seem that a process such as that embodied in the new UK legislation is appropriate.¹²⁴ This begins with a warning in the form of an advisory shareholder vote on actual remuneration paid, escalates to the requirement for directors to pay compensation for breach of remuneration policy and can conclude with replacement of directors if shareholders deem this necessary.

If the value that shareholders require from their business is purely financial - as many, notably Jensen, Sternberg and Friedman¹²⁵ believe it should be - then the above might be considered to be relatively straightforward. However, shareholders may require other than financial value and this brings me to the final of the six problems; shareholders must have the ability to stipulate the value they wish their business to generate. Let us suppose that such value consists in contributing to social goals or, in the terms of the discussion in Chapter 4, Corporate Social Responsibility. If the goal of the business is purely financial then social responsibility is purely a strategic matter and is therefore the concern of the directors who will engage with it just to the extent necessary to maximise financial value. However, if social responsibility is a component of the value shareholders require from their business, then one

¹²⁴ Enterprise and Regulatory Reform Act 2013 Section 79

¹²⁵ The arguments, in favour of maximising financial value, advanced by Jensen, Sternberg and Friedman were discussed in chapter 5.

needs to ask “how might a shareholder go about stipulating this as the value she wishes her business to generate?”

As noted above, a single shareholder does not usually have the power to influence the conduct of a business without the support of other shareholders. Consequently, a prospective shareholder might select a business in which to invest, not with a view to influencing the nature of the value it generates but because it already generates the value she desires. This is the basis of ethical investment funds and share indices such as FTSE4Good referred to in Chapter 4. These enable investors to select from a range of businesses that have been evaluated as generating a particular kind of value, that is, being socially responsible. However, such funds are not a guarantee that selected businesses will generate the required value. Vogel (2005) refers to the case of Enron, an American energy company, observing that it was included in several Socially Responsible Investment (SRI) funds because of its approach to Corporate Social Responsibility (CSR). He explains that:

Enron was widely respected for its CSR: it was ranked one of the 100 best companies to work for; received several environmental awards; issued a triple-bottom-line report; established a social responsibility task force; developed codes of conduct covering security, corruption and human rights; supported progressive climate change policies; and was known for its generous philanthropic contributions (Vogel, 2005:38).

Despite all this, towards the end of 2001, Enron became bankrupt. As a news report at the time recorded, “Enron lied about its profits and stands accused of a range of shady dealings, including concealing debts so they didn't show up in the company's accounts” (BBC, 2002). Clearly, identifying businesses in which to invest according to the type of value that they generate is not straightforward. It seems that it is not possible to be confident about all aspects of a business's activities.

It might be thought that shareholders could seek to invest in a business that appears to generate the required value and then attempt to influence its directors in matters of particular concern. For example, it may be that shareholders, concerned about high levels of unemployment, require their directors not to make any compulsory redundancies. However, this course of action would meet with, at least, two obstacles. Firstly, the decision of whether or not a business should make compulsory redundancies is a strategic one. As such, it is part of the responsibilities that shareholders have delegated to their directors. Attempts to influence

directors in this manner would represent re-appropriation of responsibilities in respect of which, by delegating them in the first instance, the shareholders have acknowledged a lack of the necessary expertise. Secondly, such a course of action is challenged by Friedman's claim, noted in Chapter 5, that only governments are qualified to judge the appropriateness of socially directed goals. It appears, therefore, that shareholders who require non-financial value from their businesses face a dilemma. They cannot be certain that businesses in which they choose to invest will generate the value they require, and, they cannot attempt to influence the strategic direction of the business in the event that it fails to generate that value.

The answer to this dilemma lies in the conception of a eudaimonic business. As I described in Chapter 5, such businesses enter into partnerships with local communities. As a part of these partnerships, scorecards are agreed regarding the goals that the businesses will pursue. The communities are integrated with local government through which they have two-way communication with national government. The agreed goals are consequently consistent with government policy and represent an externality for which the State must pay. As part of the process of evaluating the externality the businesses' performance in respect of the scorecard is audited and published. In this sense eudaimonic status might be conceived of as a form of accreditation.

Take this idea of a business being accredited as "eudaimonic" and combine it with the suggestion that Articles of Association are the appropriate vehicle for conveying the owner's wishes, in terms of the value he requires his business to generate. In such circumstances the Articles of Association might contain a section which describes the nature of the overall goal of the business as being either, say, "Financial Maximiser" or "Eudaimonic". Consequently, shareholders, and any other stakeholders in a particular business, will have a clear idea of the basis on which that business is conducted. They can, therefore, make investment, purchasing or employment decisions with a greater degree of confidence than if they were relying on the fact of a business being included in an SRI fund or an ethical share index, as was Enron.

Furthermore, shareholders would have the ability to vote for one or the other of these two classifications without becoming involved in the strategic matters reserved for the board of directors. If the shareholders voted for financial maximisation the directors would be clear that they were required to adopt strategies of their choosing in which they engaged with issues of CSR just to the extent that they were necessary for this purpose. However, if the shareholders required their business to be eudaimonic the directors would know that their strategic planning would have to involve social partnerships of the kind I have described above. In

addition, as in businesses owned by shareholders in particular, a change of ownership may result in a change in value required, there should be some means of facilitating this. Thus, it may be appropriate to have confirmation or variation of this particular section of the Articles of Association included as a routine feature of the AGM. Establishing the principle that a business can be classified as either a financial maximiser or eudaimonic defines the basis on which its directors should be rewarded. In the former, executive remuneration would be based solely on the financial performance of the business. Whereas, in the latter, the successful establishment of eudaimonic partnerships would be the criterion on which executive remuneration would be based.

I undertook my investigation into the relationship between business and its shareholders by examining Sison's objections to granting shareholders the status of owner. I concluded from this investigation that ordinary shareholders can be considered to be the owners of the businesses in which they hold shares, but that there are serious obstacles to shareholders exercising all the rights and obligations that ownership confers. In attempting to remove or avoid these obstacles I produced a model of shareholding with these general characteristics:

1. There is a vesting period of, say, twelve months, before shares qualify for voting.
2. Representational organisations can be legal owners of shares voting on the instructions of, or on behalf of, their members who are the beneficial owners.
3. Representational organisations may represent their members at AGMs or in meetings with the management of a business.
4. Representational organisations must declare the principles on which they will vote and demonstrate that they have actually voted in accordance with those principles.
5. Articles of Association must state whether the business is eudaimonic or a financial maximiser and the director's performance, and consequent remuneration, will be evaluated accordingly.

I began in Chapter 1 with the premise that "everyone wants to be happy". I went on to note that it was the role of the State to create the capability of happiness for each and every citizen and that in order to do this it needed the assistance of business. I described a business that provided such assistance as "eudaimonic" and observed that eudaimonic businesses formed partnerships with local communities. Finally, in this chapter, I considered how shareholders might fulfil the role of owner and described how, if they wish, they could bring it about that their business becomes eudaimonic. In the next, and final, chapter I will consider how the

eudaimonic business, together with the model of shareholding defended above, might fare in the environment in which they must exist; the global free market.

Chapter 8

The Conduct of Business in a Free Market

At the outset of this inquiry I began with the Aristotelian premise that happiness is the ultimate goal of all rational people. I went on to consider what happiness might consist in and reached the conclusion that it is the role of the State to create the capability of happiness for all its citizens. I examined the concept of the “Big Society” and its potential for creating the capability of happiness and recognised that business has an important contribution to make to this. I examined the role and purpose of business from the perspective of its stakeholders and its owners respectively and described a eudaimonic business where role and purpose combined in order to contribute to the creation of the capability of happiness. I went on to consider the characteristics of a “good” business and the importance of the owner in creating such a business. Finally, in the penultimate chapter, I developed a model of shareholding that might serve to permit shareholders to satisfy the requirements of ownership in terms of creating eudaimonic businesses.

This final chapter will examine how the concept of a eudaimonic business might be combined with the model of shareholding defended in Chapter 7 in the context of the free market. It begins by examining the characteristics of the free market as it currently exists. The basis of the conflict that exists between the supporters and opponents of a free market is considered and the manner and extent to which a eudaimonic business might satisfy their respective demands is described. In this context, a number of different forms of partnership between business and non-business enterprises are examined and it is shown that they have largely failed to successfully combine economic and human development goals. The chapter concludes by demonstrating how eudaimonic partnerships, the type of partnership formed by eudaimonic businesses, can successfully combine such goals and, in doing so, address some of the criticisms made against the free market.

Markets essentially involve the exchange of goods and services, usually mediated by money, and can be evaluated in accordance with two concepts. Firstly, the principle of private property and the associated concept of property rights and, secondly, the idea that markets are concerned with outcomes (Herzog, 2013). The principle of private property involves the freedom of owners to use their property in any way they wish and this includes exchanging

them in the context of a market. Any attempt to restrict the manner in which this exchange takes place is thereby an infringement of property rights. However, property rights can be legitimately constrained by the State in circumstances where their exercise may be harmful to others. Consequently, a market where there is no restriction on property rights is not possible in the context of a State that is concerned for the welfare of its citizens. However, such a State, that also recognises property rights, will seek to intervene in markets to the minimum degree possible consistent with the demands of public welfare. A market which is subject to this principle of minimum State intervention is what we describe as a free market.

The evaluation of markets in terms of the outcomes they bring about might be considered to involve the extent to which they satisfy the needs of the parties involved in the exchange process. That is, the extent to which they promote individual welfare (Herzog, 2013). On this account, the optimum form of free market, evaluated on this basis, will be one in which there is minimum State interference but which satisfies the welfare needs of those involved. In a eudaimonic State a measure of the success of the free market might be considered to be the extent to which it enables businesses involved to contribute to the creation of the capability of happiness of their stakeholders without obstructing the capability of happiness of any citizen.

In the form in which it currently exists, the concept of a free market receives significant support but it also receives increasing levels of criticism. However, what cannot be denied is that, globally, it is the dominant economic system and seems likely to remain so for the foreseeable future. Galbraith (2008:33) points out that, in the United States, although there appear to be many acknowledged instances of free market failure, politicians in both main parties remain committed to it. He claims that, whether this is due to a belief in the principles of the free market or a fear of being accused of heresy by denouncing it, there is no political will to abandon it. Thus, if the eudaimonic State is to obtain the contribution to creating the capability of happiness that it needs business to provide this must be possible within the context of the free market. Furthermore, in order to be effective, businesses seeking to make this contribution - that is, eudaimonic businesses - need to be capable of addressing those aspects of the free market which may be considered to have failed. It is thus important to examine the concept of the free market as it stands and to attempt to understand its weaknesses.

One of the early champions of the free market was Friedrich Hayek a prominent member of the "Chicago School" of economists (Prices and Production, 1931; The Road to Serfdom, 1944). Hayek argues that it is not legitimate for government to impose central controls on how

people live their lives, other than in respect of enforcing the rule of law. An unimpeded market ensures that complex needs are satisfied in the most efficient and equitable fashion. Government should not, therefore, be involved in market planning. Hayek's justification for making this claim is that, in order to plan, the State requires information concerning the needs of the individual that is not available to it. Such information is contained in the complex relationships of supply and demand that constitute a market and only the market is capable of interpreting it. Consequently the State is unable to engage in the planning process as, "This cannot be achieved by deliberate coordination because the coordinating agency would have to possess that very knowledge of detail which cannot be concentrated in a single hand" (Hayek, 1959:1).

Although he differs from Hayek on many other aspects of political theory, this commitment to the market finds an echo in the work of Dworkin (2002) who examines the matter from the perspective of justice expressed in terms of equality of outcome and equality of resources. In respect of the former, Dworkin argues that attempting to distribute goods in order to bring about a situation where all have equal welfare is both impractical and undesirable. There are simply too many possible conceptions of what constitutes welfare and no single conception that can be said to satisfy the needs of all individuals. Furthermore, whatever measure of welfare is chosen, intervention by the State to bring about an improvement in the welfare of an individual or class of individuals is likely to be to the detriment of others. This suggests that State intervention in markets is not a reliable means of bringing about desired outcomes.¹²⁶

Equality of outcome is best satisfied when individuals are free to choose what resources they require in order to achieve their personal goals. For example, dividing a particular good equally between two individuals will not bring about an optimum outcome if, in order to achieve their respective goals, one individual requires more of the good and the other less. Furthermore, an equitable outcome is most likely in a market situation where buyers and sellers are free to set a price that represents an agreed value for a particular good (Dworkin, 2002).

State intervention in the market is likely to be wasteful of resources. The State, as a coordinating agency, should not be concerned with what should be bought and sold in the market or the prices that should be charged; these are best determined by market forces. If there is an attempt to control prices in a market "... some resources will not be turned to the

¹²⁶ For an interesting discussion of how intervention in a market intended to bring about a reduction in undesirable consumer behaviour actually produced the opposite result see Gneezy and Rustichini, (2000).

most productive use and others that should be used will remain altogether idle” (Hayek, 1959). However this can be taken further, many of the general welfare services traditionally provided by the State could, and should, be provided through market mechanisms. That is, “...the services in question can generally be provided, and more effectively provided, by the Government’s assuming some or all of the financial responsibility but leaving the conduct of the affairs to independent and in some measure competitive agencies” (Hayek, 1959).¹²⁷

In summary, the above suggest that if business is conducted with the minimum of State interference, freedom of choice will ensure the optimum satisfaction of individual and public welfare needs. However, there are examples where businesses have been given responsibility for the delivery of public goods that has resulted in a worsening in welfare provision. For example, failure of flood defences in New Orleans to protect the city from the effects of Hurricane Katrina in 2005 (Galbraith, 2008); the abandonment of promised job creation and land clearance projects in Baltimore (Davies and Pill, 2012:196); and, in the United States generally, cherry picking profitable health insurance for the young whilst leaving the unprofitable elderly dependent on minimal State healthcare provision (Torbat, 2008:11). Galbraith (2008:20) describes such behaviour as “predation” which he claims is, “...the systematic abuse of public institutions for private profit...”.

Predation has taken the form of government handing over responsibility for the protection and provision of public services to commercial organisations who, in turn, have exploited this position for financial gain. The suggestion being that these organisations have put private profit before public welfare (Galbraith, 2008). This accusation is supported by Stiglitz who observes that, “We’re looking at a new form of public-private partnership, one in which the public shoulders all the risk, and the private sector gets all the profit” (Stiglitz, 2008). Whilst Galbraith is referring to the loss of life, injury and homelessness due to inadequate flood defences resulting from a desire to cut costs, Stiglitz is concerned with loss of homes due to foreclosure on mortgages provided by financial institutions which took unacceptable risks in pursuit of profit. However, both are making a similar point. By permitting a largely unregulated market the State leaves the public vulnerable to the consequences of the unrestricted pursuit of profit.

In Chapter 2 it was argued that happiness requires a eudaimonic field populated, as a minimum, by the threshold levels of the ten Central Capabilities. Having a normal lifespan,

¹²⁷ For a powerful counter argument in respect of the provision of blood and blood products see Titmuss (1970).

enjoying good health and having adequate shelter are components of the first two of the ten Central Capabilities (Nussbaum, 2011:33). Consequently, it might be said that both Galbraith and Stiglitz are describing situations where the desire for unlimited wealth is impeding the capability of happiness of a large number of citizens. However, as was argued in Chapter 3, in a eudaimonic State at least, citizens may pursue happiness in whatever manner they choose. The only proviso is that in doing so they do not impede the capability of happiness of any other citizen. Furthermore, as was argued in Chapter 6, the pursuit of maximum financial value may be an Aristotelian necessity for businesses in order to maintain the Aristotelian categorical of being sustainable. Thus, the eudaimonic State seems to have a problem. It must allow the owners of businesses to pursue maximum financial value if they so wish, but it cannot allow this to obstruct the capability of happiness of any citizen. Although they do not express it in the above manner, Galbraith and Stiglitz agree that this situation demands intervention in terms of planning. Galbraith's solution is to effectively abandon the free market and replace it with a system of regulation based on standards such as "fair" wages, prices or rents (Galbraith, 2008:200). However, as stated in the introduction, the purpose of this thesis is not to argue for a replacement of the free market but to attempt to establish a means by which business might contribute to the capability of happiness whilst, as far as possible, respecting the demands of a free market. As a consequence Galbraith's solution is not available.

Stiglitz observes that, "We learned from the Depression that markets are not self-adjusting—at least, not in a time frame that matters to living people. Today everyone—even the President—accepts the need for macroeconomic policy, for government to try to maintain the economy at near-full employment."¹²⁸ However, he claims that macro-economic planning is not the answer to the failures he sees in the free market. He suggests that the causes of the apparent problem are an accumulation of "micro problems" and that a micro-economic approach is required to resolve them (Stiglitz, 2008). Although, theoretically, planning is incompatible with a free market, it is a feature of free markets as they currently exist.

However, the majority of the planning that takes place is undertaken not by the State but by the various businesses engaged in the market. This planning takes the form of, *inter alia*, new product design, market research, advertising and cooperation with competitors in order to limit supply. Such planning, however, does not serve to adjust the market in order to bring it back into balance. It further distorts the market in favour of business and increases the risk

¹²⁸ The United States President at the time was George W Bush who was renowned for his enthusiastic support of the free market.

that the pursuit of maximum financial value will impede the capability of happiness. The planning that businesses engage in creates freedom but that freedom is for the businesses themselves not for consumers (Galbraith, 2008:45). Furthermore, it seems that very large corporations have acquired considerable political power which enables them to manipulate the market to their advantage. Such power derives in part from the State having handed responsibility for the provision of welfare services to businesses and the ability those businesses possess to set the agenda in respect of the demands of Corporate Social Responsibility (Crouch, 2012).

The above might be said to represent the problems associated with the free market which must be resolved if the concept of a eudaimonic business is to be effective. In addition, in accordance with Aristotelian practice, in resolving these problems an attempt should be made to retain the positive elements contained within the criticisms. Thus, before proceeding, it would be useful to summarise the issues.

1. There should be a minimum of state intervention in the market in order to bring about optimum outcomes.
2. An unregulated market permits the unlimited pursuit of financial value which may be necessary for business's sustainability but which threatens the capability of happiness of some citizens.
3. There will be a need for some State involvement in marketing planning but the majority of planning should be undertaken at the macro-economic level.
4. Businesses are engaged in market planning but this is for the purpose of maximising financial value not bringing about optimum outcomes in terms of individual or public welfare.

Putting these together, the problem to be resolved can be described as: *How can business contribute to creating the capability of happiness, in a manner involving freedom of choice as determined by the market, with provision for State intervention as required to protect the right to the capability of happiness, whilst providing for the Aristotelian necessity for business to maximise financial value?*

How, then, does the conception of a eudaimonic business contribute to resolving the above problem? In the previous chapter it was suggested that eudaimonic status might take the form of an accreditation. In such circumstances, the owner of a business would *choose* to seek eudaimonic accreditation. As such, being eudaimonic is not a condition that is imposed on a business by the State. The owner *chooses* eudaimonic accreditation simply because it accords

with the value she requires her business to generate. In the case of a corporation, the shareholders would vote for the proposition that their business is to be “Eudaimonic” and this would be recorded in its Articles of Association. Directors of corporations, who believed that, strategically, eudaimonic accreditation might give the business a competitive advantage, might recommend to their shareholders that the business becomes eudaimonic. Stakeholders, such as customers or employees, might *choose* to buy from, or work for, such a business, simply because they perceive it to be eudaimonic. On this understanding of a eudaimonic business there appears to be no conflict with the principle of “freedom of choice” which characterises the free market.

Now consider the requirement that the free market must be capable of satisfying the requirements for the effective privatisation of the State’s public welfare responsibilities. In Chapter 4 it was argued that the basis of a eudaimonic business is the formation of partnerships with local communities. Manton Community Alliance was offered as an example of such communities (Manton Community Alliance, 2011). The suggestion was that such a community embodied the principles of the “Big Society” (when that idea was properly decoupled from its political use), which as we noted, Glasman (2010:61) believes are fourfold. These are: “civic responsibility”, which concerns strengthening the community through involvement in volunteering; supporting “social entrepreneurs” whose activities contribute to meeting the needs of the community; “the mutualisation of public services”, which involves enabling communities to work together in order to find local solutions to welfare needs; and finally, “radical localism”, which provides a significant degree of autonomy for the community in terms of enabling the foregoing.

The concept of the Big Society, so understood, in addition to contributing to the satisfaction of individual needs, promotes participation and proximity which, as was demonstrated in Chapter 2, are essential for the acquisition and exercise of virtue. Expressed in the terms defended in this thesis, the Big Society concept could be considered as a vehicle for providing citizens with the opportunity to possess sufficiently populated eudaimonic fields. That is, by enabling the Big Society, the eudaimonic State might be considered to be meeting its responsibility to create the capability of happiness for each of its citizens.

However, it was noted that finance is a significant barrier to creating a “Big Society”. In particular, opportunities for volunteering are limited by the need for individuals to earn a living, thereby having insufficient free time to volunteer (Glasman, 2010:62). Also, social entrepreneurs require capital and mutualised public services need funding and expertise. Such

funding might be provided by the State or from the charity sector. However, as was observed in Chapter 3, relying on charitable funding risks the danger of the State becoming undemocratic (Nussbaum, 2011:119) and State funding is at risk from changes in priority and budgetary pressures (Grint and Holt, 2011:95).

This latter point was exemplified by Manton Community Alliance which, despite achieving some significant successes, was discontinued due to the withdrawal of Government funding (Manton Community Alliance, 2011). My argument was that businesses might provide the means to avoid this obstacle by forming partnerships with communities such as Manton. As described in Chapter 4, such partnerships would involve a “relational capability” (Renouard, 2011:90) that would involve stakeholders of the business, in a network in which members of each stakeholder group can participate and engage with each other. Such a partnership might be considered to achieve the goal of participation in community focussed activities without being dependent upon volunteering. It might also be the case that such partnerships would contribute the funding required by social entrepreneurs and the provision of public services.

Clearly, partnerships might take different forms according to the goals they are expected to achieve and the manner in which they go about achieving them. Reed and Reed (2009) suggest that the goal of business partnerships is that of “development” which can be understood in two principal ways: economic or human. Economic development in its current sense can be understood in terms of the liberal strategy of developing the free market, which, as noted above, its proponents believe to be the most efficient means of providing for human needs. By contrast, there are three distinct approaches to understanding human development. These are by enhancing individual capabilities, reducing inequality, and/or restructuring society in order to re-distribute social power (Reed and Reed, 2009:7). An appropriate criterion for assessing partnerships is the degree to which stakeholders are able to influence businesses taking part in the partnership. Furthermore, the most desirable forms of partnership are those that promote human development whilst remaining compatible with economic development in terms of the free market (Reed and Reed, 2009:12-13).

The concepts of human and economic development can be interpreted in the context of the capability of happiness, as it has been defended. As has been argued, true happiness involves the possession of a sufficiently populated eudaimonic field. Establishing such a field requires the acquisition and exercise of virtue, the process of which can be equated with human development. In order that a eudaimonic field is sufficiently populated at least a threshold level of ten Central Capabilities is required. Satisfying the material content of these capabilities

can be equated with economic development. Consequently, an appropriate means of evaluating the effectiveness of partnerships is to establish their contribution to creating the capability of happiness.

There are four principal types of partnership that pursue developmental goals (Reed and Reed, 2009). Firstly, there is the “Conventional Business Partnership” (CBP). Such partnerships are involved in the privatisation of the State’s responsibility for the provision of some public goods such as, say, health care or flood defences, which, free market proponents suggest, are more efficiently provided by business. CBPs are concerned with a conception of development that is entirely economic and are characterised by the pursuit of financial value. “In such partnerships the business partner is concerned with revenue generation (and not considerations such as public relations). It is not required to demonstrate any specific sense of social responsibility” (Reed and Reed, 2009:13). Consequently, CBPs represent a problem to the State in terms of their ability to regulate the delivery of welfare services. It may be the CBP that Galbraith is thinking of as being the facilitator of the “predation” which lead to the inability of the City of New Orleans to maintain effective flood defences.

This leads to the second type of partnership; the “Corporate Social Responsibility Partnership” (CSRP). In essence CSRPs appear to be very similar to CBPs in that they are concerned with businesses’ pursuit of maximum financial value. However, they go further than CBPs because, as part of the partnership, businesses formally acknowledge that they have some sort of social responsibility. However, CSRPs have two characteristics that weaken the influence with which such social responsibility might be thought to endow stakeholders. Firstly, businesses “... are only bound by agreements that they freely make. Second, these partnerships are frequently business initiated and always business friendly” (Reed and Reed, 2009:16). Many CSRPs involve rule setting based on the idea of codes of conduct often backed by some form of confirmation of business compliance. However, these measures may lack the ability to provide the influence stakeholders need in order to ensure that the partnership achieves the required degree of human development.

As a result, there are a number of conditions that need to be met if a CSRP is to be successful. In particular, “...there must be an appropriate form of motivation to induce corporations to participate”. However, the relationship must not be one sided, “...there must be a potential “win-win” scenario in which both the business partner and the other partner(s) can be better off”. Finally, “...there must be some condition(s) in place that neutralize power relations between the partners” (Reed and Reed, 2009:17).

The voluntary nature of CSRPs renders it unlikely that these conditions will be met. The business is overwhelmingly the dominant partner and will only enter partnerships that are more advantageous to it than any alternative, regardless of the needs of the other partner. Furthermore, they will use their dominant position to ensure that any standards set represent little problem for them. This, together with weak or non-existent external monitoring or auditing and few sanctions for non-compliance, suggest that CSRPs will not achieve the goal of promoting human development (Reed and Reed, 2009:18).

The third form of partnership is a “Corporate Accountability Partnership” (CAP), which is a response to the weaknesses of CSRPs. This type of partnership is the product of attempts to impose control over business using methods such as “...hard law, soft law, boycotts, protests, shareholder activism, and certification programs” (Reed and Reed, 2009:19).¹²⁹ The majority of CAPs involve certification consisting in businesses undertaking to observe codes of practice formulated by external bodies. Furthermore, the majority of these certification CAPs are with organisations whose concerns are in respect of employment and environmental issues, for example, the Fair Labor Association, the Workers Rights Consortium, the Marine Stewardship Council and the Rainforest Alliance. The conduct of the partner business is measured against the relevant code of practice and audited by an external body. The various partner organisations seek to recruit the support of Government in strengthening their codes of practice and associated enforcement, often through the use of legislation. Businesses are therefore motivated to join CAPs in order to avoid the possibility of hard law (Reed and Reed, 2009:21).

However, the most important requirement for the success of CAPs is consumer pressure and it is far from certain that this will be forthcoming. As described in Chapter 4, Vogel (2005:48-9) observes that consumers tend to be concerned more with issues such as price. The reasons he gives for this are a lack of awareness and a lack of motivation on the part of consumers and the additional costs to businesses associated with implementing CSR policies. He suggests that many consumers are unaware of the implications of product labels that indicate that they have been manufactured in compliance with some certification scheme or other. These points are reflected by Reed and Reed who note that one of the principal obstacles is that consumers are unable to understand or differentiate between the multiplicity of certification labels on products. Observing that, “...most of the literature seems to indicate that consumers do not feel well informed or capable of acting effectively upon their beliefs and/or are more

¹²⁹ Soft legislation could be described as constraints applied by society which are not embodied in law.

concerned with other issues such as price and convenience” (Reed and Reed, 2009:22).

We might describe Conventional Business Partnerships, Corporate Social Responsibility Partnerships and Corporate Accountability Partnerships collectively as economic partnerships which have similar weaknesses and which exhibit those weaknesses to differing degrees. Those weaknesses could be summarised as:

1. The partnership being dominated by the business partner’s need to pursue maximum financial value.
2. The non-business partner’s inability to make the business partner sufficiently accountable for contributing to its human development needs.
3. The lack of understanding amongst the business partner’s stakeholders concerning the nature, goals and possibly even the existence of the partnership.

It may be, as was argued in Chapter 6, an Aristotelian necessity that businesses pursue maximum financial value if this is required for sustainability. Consequently, if the success of economic partnerships is dependent upon constraints on the pursuit of financial value they may not be appropriate, at least within the context of a free market economy. That does not represent an outright condemnation of economic partnerships as they may be appropriate to some other form of economy. However, as I am committed to eudaimonic businesses flourishing within the context of the free market, it appears that the economic partnership model may not be the appropriate one for the present argument.

This concern is strengthened when we consider the second weakness of economic partnerships. It is perfectly legitimate, in the context of the free market, for stakeholders to seek to influence the behaviour of businesses. Such influence could include requiring businesses to be conducted in a manner that accommodates human development goals. However, problems may arise if the influence that stakeholders seek to exercise goes beyond soft legislation. If the non-business partner or the business partners’ stakeholders succeed in enlisting the support of the State in influencing the conduct of business by enacting hard legislation, this may be interpreted as macro-economic management. As such, if economic partnerships depend for their success on such measures they may be considered antithetical to the free market.

Finally, if the influence that stakeholders seek to exercise over the conduct of business partners is considered to be a form of micro-economic management, there may be a further problem. It was noted above that a characteristic that a free market is required to possess is

that it is amenable to small-scale management of the small-scale problems that beset it. However, if stakeholders are to fulfil the role of micro-economic managers they need to be able to understand the nature of the problems and the remedies the problems require and possess the motivation to tackle them. The third weakness of economic partnerships, noted above, suggests that not all stakeholders, and in particular consumers, possess these abilities. Consequently, it appears that the problems that Reed and Reed identify with their three models of economic partnership are such that they do not satisfy the needs of a eudaimonic business. Therefore I will consider how eudaimonic partnerships, the form of partnership adopted by eudaimonic businesses, might avoid these problems. However, before doing so, it is worth examining the fourth of Reed and Reed's classes of partnership, the "Social Enterprise Partnership" (SEP).

SEPs can be thought of as human development, rather than economic, partnerships. The rationale behind them is based on a recognition that economic development partnerships will not bring about the social changes needed in the sense of "...effectively addressing the plight of the vast majority of the marginalized people in the world" (Reed and Reed, 2009:22). As a consequence, SEPs typically involve partnerships between non-profit organisations with the goal of cooperating to promote social economic development rather than generating maximum financial value. However, if such enterprises are to flourish, they require support in terms of "...access to capital, technical support in production, and help with a range of other business activities (marketing, organizational development, accounting, etc.)" (Reed and Reed, 2009:24). It is in this respect that commercial businesses might become involved. Such enterprises might be engaged in supporting "social entrepreneurs" whose activities contribute to meeting the needs of the community or "the mutualisation of public services", which involves enabling communities to work together in order to find local solutions to welfare needs. As noted above, these are two of the four components that Glasman suggests comprise the concept of the "Big Society" (Glasman, 2010:61).

Di Domenico et al (2009) approach the formation and operation of SEPs from what they claim is a dialectical perspective.¹³⁰ Initially, in the hypothesis stage, business and non-profit organisations are attracted to each other because of the benefits each can bring to the

¹³⁰When they refer to dialectic Di Domenico et al are not referring to it in its classical, Aristotelian, form but to its modern use as proposed by Hegel and Marx involving the three stages of hypothesis, antithesis and synthesis. They acknowledge that such usage in the context of business partnerships is controversial. Examining that controversy is beyond the scope of this thesis. Consequently, in the following I will attempt to evaluate Di Domenico's findings without relying on the authority of any particular conception of dialectic.

partnership. The business partner is attracted to the partnership because "...partnering with a social enterprise may have a positive effect on the reputation and perceived trustworthiness of the corporation", Furthermore, the partnership "...might deliver commercial benefits in terms of improved local knowledge, greater local awareness and increased local demand" (Di Domenico et al., 2009:895). From the perspective of the social enterprise organisation, "...collaborations with corporations offer social enterprises the possibility to decrease their reliance on contributed income, and to develop earned income strategies through commercial activity" (Di Domenico et al., 2009:895). However, there are tensions between the two organisations that are manifested in the antithesis stage. There are four causes of this tension:

(1) the profit goals and market logic of the corporation, and the social goals and community logic of the social enterprise; (2) the for-profit ownership structure of corporations in which profits are distributed to owners, and the non-profit ownership structure of social enterprises in which profits are invested for social purposes; (3) the corporation's hierarchical governance structure, and the social enterprise's democratic/participative governance structure; and (4) the corporation's need to be accountable to its shareholders, and the social enterprise's need to be accountable to a broad range of stakeholders of which the community is most important (Di Domenico et al., 2009:897).

Finally, in the synthesis stage, the basis of the partnership is adjusted to accommodate these tensions or, if this proves impossible, the partnership is ended.

Di Domenico et al (2009:902) give the example of an SEP between Ben & Jerry's, the US ice cream maker, and Cresco Trust, a social enterprise in Northern Ireland whose purpose is to provide training for young people who have difficulty in gaining employment. The partnership involved setting up two Ben & Jerry's franchises, managed by Cresco and in which the young people concerned were employed. However, the franchises, although serving the social purpose which Cresco required, failed to generate sufficient financial value for Ben & Jerry's.

The solution, which represented an acceptable compromise for both parties, was for Cresco to employ a number of experienced sales staff alongside the young people and to locate one of the franchises in a wealthier area. However, it may not be possible for such a compromise to be found in which case the partnership may be dissolved or it may continue but with the commercial interests dominating. Di Domenico et al (2009:900) describe, as an example of the former, the partnership between Recycle-IT, a social enterprise concerned with recycling

computers, and Business Development Group, a consultancy business. When the partnership failed to generate the financial value Business Development Group required of it the partnership was dissolved. As a consequence, Recycle-IT went into receivership and the local community was denied a valuable service.

However, dissolving such a partnership represents a loss to the business partner in terms of damage to its reputation for Corporate Social Responsibility. As a consequence, there may be pressure for the partnership to continue but on a more commercial basis dominated by the business partner and, as such, "...the resulting goals, priorities and modes of operation of the collaboration may more closely resemble those of the corporation" (Di Domenico et al., 2009:903). It may be that the Fair Trade Organisation is an example of such an SEP.

Reed and Reed explain that the Fair Trade Organisation began as a partnership between social enterprises with an agreement between those in the Northern hemisphere to pay reasonable prices to producers in the Southern hemisphere.

Its rules not only require Northern fair trade organizations (cooperatives, NGOs, and social entrepreneurs) to pay Southern producer cooperatives more equitable prices for their products (coffee, bananas, cocoa, tea, and more recently cotton being the most widely traded commodities), but also seek to encourage long-term trading relationships (Reed and Reed, 2009:24).

However, this situation began to change when fair trade producers, who wished to increase the size of their markets, became involved with large supermarkets. This had the effect of changing the nature of fair trade agreements as supermarkets took the responsibility for importing and processing Fair Trade products away from the social enterprises previously fulfilling this role. It also had the effect of applying pressure on the Fair Trade Organisation to licence large producers thereby limiting the participation of smaller producers (Reed and Reed, 2009:24).

This pressure to change the rules of fair trade to suit the commercial needs of partner businesses can also lead to what Reed and Reed describe as "fair wash". That is, labelling themselves as fair trade participants but not maintaining the standards required by Fair Trade. This creates a dual challenge for the Fair Trade Organisation. It must be able to gain access to the retail markets that businesses can provide, without allowing those businesses to dominate the partnership, and it must prevent businesses from using "fair wash" techniques to gain competitive advantage (Reed and Reed, 2009:25).

An example of the sort of problem fair trade producers face in this respect can be found in the price wars in which the major supermarkets are frequently engaged as a means of competing for customers. A recent price war in the UK has involved cut price bananas with the suggestion that, in some cases, bananas are being sold at a loss. The Fair Trade Organisation claims that this is having a damaging effect on small producers. As Sarah Butler writes:

The Fairtrade Foundation is calling on the government to intervene in a banana price war in supermarkets that is putting pressure on suppliers. The foundation, which aims to protect farmers in developing countries, says the price of bananas in UK supermarkets has nearly halved in the past 10 years to just 11p, while farmers at the same time have seen costs double (Butler, 2014).

From the above we might reach the conclusion that a project which attempts to create partnerships which promote human development whilst also satisfying the demands of the free market is doomed to failure or, at best, subject to considerable limitations. This seems to apply equally to attempts to make economic partnerships accommodate human development needs as it does to endowing social enterprise partnerships with the ability to function in free market conditions. The obstacles to success appear to be similar regardless of the starting point. That is, in the terms defended in this thesis, the types of partnership described above do not seem suitable for a eudaimonic State in terms of its need for business to contribute to creating the capability of happiness. It seems that bringing economic and human development goals together in a single partnership, in the manner required to create a sufficiently populated eudaimonic field, will require three major problems to be addressed. Firstly, there must be a mechanism to prevent businesses dominating the partnership and thereby dictating the rules that will apply. Secondly, business partners must be held accountable for complying with the rules of the partnership. Finally, the businesses' stakeholders must be aware of the fact that a business is in a partnership, be informed about the extent to which the business is meeting the requirements of the partnership, and care enough to act on that information. How, then, might a eudaimonic partnership satisfy these requirements?

A eudaimonic partnership just is a partnership involving a eudaimonic business. As was described in Chapter 4, eudaimonic businesses form partnerships with local communities with the purpose of contributing to the State's responsibility to create the capability of happiness for each of its citizens. In Chapter 3 it was suggested that such communities might be considered as instantiations of the concept of the Big Society and Manton Community Alliance was offered as an example of such a community. Therefore, a significant difference between

eudaimonic partnerships and the types of economic or human development partnerships that we have been considering above can be identified. Whereas the latter typically involve partnerships between, *inter alia*, charities, consumer organisations, NGOs, social enterprises or even the State, the former only involve partnerships with local communities.

The local community, as an instantiation of the Big Society, will, as Glasman (2010) suggests, involve supporting “social entrepreneurs” whose activities contribute to meeting the needs of the community and “the mutualisation of public services”, which involves enabling communities to work together in order to find local solutions to welfare needs. These activities may well entail eudaimonic businesses working together with the likes of consumer organisations or social enterprises but not in partnership with them. The partnership is with the local community which, in this sense, might be considered to be the means of coordinating and directing the activities of the various organisations or enterprises that exist within it. Consequently, we might consider the basis of a eudaimonic partnership to be agreeing the rules of engagement between a business and its stakeholder groups within a particular community.

As eudaimonic businesses contribute to creating the capability of happiness, the rules of engagement with the various stakeholder groups will be concerned with how that might be achieved. A eudaimonic business contributes to creating the capability of happiness in two ways. Firstly, it provides the opportunity for its stakeholders to create a eudaimonic field. As described in Chapter 1, such a field is created through the acquisition and exercise of virtue, for which conditions of participation and proximity are essential requirements. Consequently, as we saw in Chapter 4, a eudaimonic business will seek to create a network providing stakeholders with what Renouard (2011:90) describes as a “relational capability”. A relational capability is an opportunity for participation and proximity created by allowing stakeholders to work together in a group with an objective that is beneficial to all and enables each to value and respect the interests of the others.

The second type of contribution that eudaimonic businesses might make towards contributing to creating the capability of happiness involves assisting stakeholders to acquire the goods and services which they require in order to sufficiently populate their eudaimonic fields. This could be achieved in two different ways. Firstly, by directly providing them with the goods and services they require or, secondly, by assisting them to acquire those goods and services themselves. The former may involve employees of the business meeting with representatives of consumer groups with the goal of re-designing the business’s products in order to better

meet the needs of consumers.

For example a water utility company might establish a group involving some of its engineers and, say, representatives of a residents association with the shared goal of improving water pressure in a particular housing estate. The latter may involve equipping particular groups with the skills they require in order to create goods and services for themselves. In this respect a finance company running training for its managers in, say, debt management might offer places on the course to the managers of local credit unions.

Larger businesses might be able to provide a combination of the above opportunities to contribute to creating the capability of happiness. For example a supermarket might establish a group consisting of its marketing staff, members of a fair trade organisation and local farmers, with the goal of selling more locally produced products at fair prices. At the same time it might establish a group consisting of members of its warehouse staff and representatives of a local food bank with the objective of attempting to utilise date limited products that might otherwise be wasted. The supermarket might also promote the personal development of its sales staff by seconding them for a time to assist with the management of, say, a charity shop raising funds to support a local hospice. Whilst such activities are most likely to be undertaken by large businesses small businesses are not excluded. Nelson's (1998:93) corner newsagent, whose status as a business was confirmed in Chapter 5, might also participate, perhaps by agreeing to sell tickets for a local theatre group whose purpose is to provide therapy for disabled children.

In respect of all the above initiatives the local community would act as coordinator, directing resources to where they are most needed and taking responsibility for agreeing the rules which would apply.

Chapter 3 described such communities as having a large degree of autonomy to determine their own particular needs and find appropriate means of satisfying them. It argued that, in order to prevent local initiatives conflicting with the interests of society as a whole there would be links with national government. In the UK for example, such links would involve the local community and the system of local government being integrated with formal links between the latter and constituency MPs. In this manner the State could attempt to ensure that local initiatives were consistent with the overall goal of creating the capability of happiness for each and every citizen without the need for direct State control.

Such an arrangement might be considered to provide the sort of micro-economic control that

Stiglitz believes is essential for addressing the failings of the free market without involving the sort of direct State interference that Hayek argues would cause waste and inefficiency. Such an arrangement would appear to address the third problem identified at the outset in respect of an acceptable conception of the free market.

Furthermore, by making local communities responsible for defining State endorsed rules for the partnership, businesses are denied, to a significant extent at least, the opportunity to structure those rules to their own advantage. Consequently, businesses involved in eudaimonic partnerships would be unable to dominate the partnership in the manner that Reed and Reed and Di Domenico et al found to be so damaging. This may also serve to avoid some of the tensions that Di Domenico et al describe in the “antithesis” phase of a partnership. This would be achieved because the business and the social enterprise would be accountable through the same mechanism, the eudaimonic partnership, to the same authority, the local community.

However, this raises the question, “why would businesses choose to enter a partnership which they are unable to dominate?”. The answer lies in the difference between eudaimonic partnerships and the types of economic or human development partnerships described by Reed and Reed. As described in Chapter 7, eudaimonic partnerships are chosen because the owner of the business perceives them as representing the value he requires his business to generate. By contrast, economic and human development partnerships are concerned, as described above, with the commercial advantage that such partnerships offer. That is, they are strategic in nature.

In Chapter 6, it was argued that the owner of a business, and only the owner, must determine what value she wishes her business to generate. Furthermore, if she wishes her business to be eudaimonic, that is, to contribute to the creation of the capability of happiness, it must form eudaimonic partnerships. Directors of businesses are responsible for strategic matters (see Chapter 6). Consequently, they can, solely on their own initiative, seek to form partnerships, which they might attempt to dominate for the benefit of the business for which they are responsible. However, if the shareholders of a business determine that it is to be “Eudaimonic” their directors must form eudaimonic partnerships, the structure of which prevents them from achieving dominance. As suggested in Chapter 7, such an arrangement might be facilitated by modifications to Articles of Association, and the AGM, in order to enable shareholders to vote for “Eudaimonic” or “Financial Maximising” status and the creation of representative organisations to consolidate the voting power of smaller shareholders.

However, as was noted in Chapter 4, Vogel (2005:73) points out that adopting the principles of Corporate Social Responsibility costs money. Therefore, as there is reluctance amongst consumers to pay higher prices, businesses are only inclined to adopt those practices which are demonstrably contributors to financial value. This suggests that if a business enters into eudaimonic partnerships it may incur costs that, particularly in the context of the free market, could threaten its sustainability.

However, the argument of Chapter 5 established that the contributions to creating the capability of happiness which eudaimonic businesses make can be considered to be positive externalities. That is, they are benefits created by a business which are not recognised in the market price of that business's products. A market in which the benefit of externalities is not recognised will not function properly and consequently payment should be made to the creator of the externality in proportion to the benefit created. It was also noted that the benefit of this particular externality accrues to the State and not, directly, to the consumer. The State has the responsibility to create the capability of happiness for its citizens and, consequently, any contribution made to that end by a business represents a positive externality that must be paid for by the beneficiary in accordance with the value of the benefit obtained. The usual manner in which externalities are dealt with is through taxation (Laffont, 2008).¹³¹ Consequently, it seems appropriate that businesses that contribute to creating the capability of happiness should be awarded tax reliefs that accord with the value that their contribution represents to the State. If this were to be the case it might be concluded that eudaimonic businesses will, to some extent at least, be capable of remaining sustainable in free market conditions without the need to charge a premium for their products.

In achieving the above, in the context of a free market, there are two requirements that must be met. Firstly, the State must be confident that businesses are making genuine contributions to the capability of happiness. Secondly, the price paid, in terms of tax breaks, must represent the value the State receives from the contribution made. In Chapter 5, it was suggested that an appropriate means of achieving this might be through the use of a scorecard. The scorecard would define the manner in which a contribution to the capability of happiness would be made in terms of describing the various initiatives the business proposes to take in creating a

¹³¹ The example commonly given is that of pollution which is considered to be a negative externality created by businesses. The usual remedy is for the State to impose a tax on businesses that produce more than a specified level of pollutants.

“Relational Capability”¹³² for its stakeholders. It was proposed that, “This scorecard would be developed by the business in partnership with the local communities with whom it was engaged and, through the mechanism of two way communication with government, would determine the rewards that the business would receive from government in the form of, *inter alia*, tax allowances and subsidies”. The value of the tax breaks to be awarded for contribution made would thus be established by agreement between supplier and consumer in accordance with free market principles. Confirmation of the extent to which a business had contributed could be obtained by an audit of the business’s score in terms of achieving the goals the scorecard describes.

The process of agreeing scorecards and measuring the score achieved by a particular business might be described as a form of accreditation, similar to that of Investors in People in the UK. Investors in People use a form of scorecard which they describe as their “Framework” and which contains ten areas of activity in respect of “people management” in which they believe any well-run business should be involved (Appendix 1). Accreditation involves businesses agreeing on how the framework should be incorporated within their specific management practices and demonstrating that they meet thirty nine performance standards derived from the framework. This represents the “standard” level of accreditation and by meeting a number of additional performance standards businesses can go on to be accredited at bronze, silver or gold levels. Performance against the various standards is constantly measured and periodically inspected by Investors in People allowing businesses to improve the level of their accreditation, which can also be withdrawn if businesses are shown to have fallen below the standard level of performance.

Investors in People is a very well respected standard of measurement of a business’s engagement with its employees, possession of which can significantly contribute to a business’s reputation. As Investors in People Observe:

Investors in People was formed in 1991 to help UK organisations and their employees make the most of their abilities. Two decades later, we’re a trusted advisor on people management, and our accreditation is proudly held by businesses of all sizes that meet the Investors in People standards. Results can be transformational. Research shows that Investors in People accredited organisations are more profitable, sustainable and optimistic about the future

¹³² Relational Capability is Renouard’s (2011) term which I have adopted to describe the network of interaction between stakeholders that a business creates.

(Investors in People, 2014a:2).

A similar principle might be applied to eudaimonic businesses. Goodpaster et al refer to a set of “transcultural ethical principles” that have been developed by The Caux Roundtable. These “Caux Principles” are based on the twin concepts of human dignity and *Kyosei*. Human dignity involves being concerned with people as ends in themselves and the Japanese concept of *Kyosei* which, “...is a subtle and complex concept that tempers individual, organisational and even national self-interest with a concern for more embracing ‘common goods’” (Goodpaster et al., 2002:50). These concepts, it would appear, are similar to the principles on which Renouard based her “Relational Capability” which she described as, “...to be integrated into networks; to commit oneself to a project within a group, aimed at serving a common good, a social interest; to take part in decision making in a political society; to have specific attachments to others: friendship, love; to try to value others’ objectives, considering them as ends” (Renouard, 2011:90).

As noted above in Chapter 4, a Relational Capability might form the basis of the network of stakeholder involvement that a eudaimonic business might seek to establish. Consequently, the Self-Assessment and Improvement Process (SAIP) developed by Caux Roundtable which, Goodpaster et al explain, embodies the concepts of human dignity and *Kyosei*, might serve as the basis of a scorecard for eudaimonic accreditation.

The SAIP has seven categories which are conceptually similar to the ten areas of activity of Investors in People. However, whereas the Investors in People scorecard is only concerned with a business’s engagement with its employees, the SAIP scorecard’s seven categories or “criteria” relate to engagement with all a business’s stakeholders (Goodpaster et al., 2002:53) (Appendix 2).

On the above basis, a business, the owner or shareholders of which have stipulated that it is to be eudaimonic, could, in conjunction with a local community, agree a scorecard which represents the SAIP criteria applied to that particular business. The process could be overseen by an organisation similar to Investors in People, the Eudaimonic Business Authority (EBA) perhaps. The EBA would be responsible for auditing the business’s performance against the scorecard and, where appropriate, granting accreditation. Once the EBA has granted eudaimonic status to a particular business, on the basis of the scorecard developed in conjunction with the business and the local community or communities within which it trades, the business could be considered to qualify for Corporation Tax reliefs or subsidies.

Accreditation might be set at a score of, say, seventy percent of goals achieved for which the business would be awarded a reduction of Corporation Tax liability of, say, fifty percent. Subsequent audits by the EBA of the business's score would allow for, say, further one percent reductions in Corporation Tax liability for each additional one percent of goals achieved. In the event that an EBA audit produced a score of less than seventy percent the business in question would lose its eudaimonic accreditation and revert to standard levels of Corporation Tax.

This chapter has considered the concept of a free market and the problems that must be overcome if businesses are to be capable of operating in such a market whilst contributing to the eudaimonic State's goal of creating the capability of happiness for each of its citizens. The difficulties these problems created for various types of partnerships that businesses might form with a goal of promoting human development have been examined. Finally, the argument considered how these difficulties might be avoided by a eudaimonic partnership, the type of partnership that eudaimonic businesses form with local communities, so as to make the contribution to the capability of happiness that the State needs. The findings can be summarised as follows:-

1. The free market is the dominant global economic system and its proponents argue that it is the best means available to efficiently use resources and macro-economic management by Government will reduce efficiency.
2. In practice the free market is not perfect and left unregulated will produce damaging results and the most appropriate form of regulation is micro-economic management of businesses by their stakeholders.
3. Partnerships of various types between businesses and, *inter alia*, the State, NGOs and Social Enterprises have been tried as a means of micro-economic management. However, they have been largely unsuccessful because of the need for businesses to maintain competitive advantage in order to survive in the free market.
4. The need for competitive advantage has resulted in businesses attempting to dominate partnerships and, thereby, avoid the obligations that are required if micro-economic management is to be effective.
5. Micro-economic management by consumers has been largely unsuccessful because of their unwillingness to pay the additional costs that partnerships impose on businesses and which

they must pass on if they are to maintain competitive advantage.¹³³

6. Any motivation that consumers have to support businesses engaged in partnerships is diluted by a lack of understanding of the nature of the partnership and the extent to which the business is contributing to its goals.

I argued that eudaimonic businesses just are businesses that form eudaimonic partnerships and that whether or not a business is eudaimonic is a matter for its owner to stipulate. I observed that eudaimonic partnerships must be able to overcome the problems summarised above and consequently suggested that they should have the following characteristics.

A. Eudaimonic partnerships are formed with local communities which are largely autonomous but have formal links with national government. This provides for the requirement that micro-economic management facilitated by the partnership is consistent with the macro-economic requirements of the State.

B. Local communities coordinate the manner in which eudaimonic businesses engage with their stakeholder groups. This is achieved by agreeing scorecards which stipulate the nature of that engagement and measure the businesses' contribution. This reduces the opportunity for business to dominate the partnership for its own commercial advantage.

C. A particular business's score is audited by an independent authority and those businesses scoring above a specified level are formally accredited as a "Eudaimonic Business". This enables consumers, or other stakeholder groups, to readily recognise such businesses and understand the implications of their accreditation.

D. The score achieved by a particular business can be interpreted as being a measure of the value of the externality created by the business in terms of its contribution to creating the capability of happiness. Consequently, the State pays the business for that externality, in proportion to the audited score it achieves, through the medium of Corporation Tax relief. This may enable businesses to form eudaimonic partnerships without damaging the commercial advantage they require to survive in a free market.

The above conception of "Eudaimonic Accreditation" represents a description of how the conduct of business might be regulated, in the context of the free market, and in a manner that has the potential to be acceptable to shareholders and stakeholders alike. Underpinned,

¹³³ To the extent that a eudaimonic State is successful in engendering virtue in its citizens it might be expected that the force of this point would be weakened. That is, virtuous citizens may well be willing to pay for responsibly produced products.

as it is, by an enhanced model of shareholding, it endows shareholders with greater power to influence the conduct of their businesses. In doing so it strengthens the emphasis that shareholders can place on the demands of Corporate Social Responsibility. The clarity that eudaimonic accreditation brings to the requirements that shareholders have for the conduct of their businesses also removes much of the ambiguity concerning the fiduciary responsibility of directors.

At the heart of eudaimonic accreditation there is the principle of forming partnerships with local communities that serves to strengthen businesses' bonds with society that many believe have been weakened by the pursuit of maximum financial value.¹³⁴ Finally, it is predicated on the premise that all people share the goal of being happy. That is, it is a means, available to all just States, of enabling business to contribute to human development goals. Consequently, establishing the principle of "Eudaimonic Accreditation", as I have defended it above, satisfies the objectives of the thesis as established in the introduction.

¹³⁴ Eudaimonic accreditation also has the potential to provide substance to the concept of the "Big Society", which has been derided by many as being empty political rhetoric.

Conclusion

At the outset, I explained that this research was motivated by the discomfort I experienced as a director of a UK public listed company. I referred to the pressure being exerted on business executives from two apparently opposing directions. On the one hand, there is the imperative to maximise shareholder value and on the other hand a demand that, in conducting the business, executives must accept that they have responsibilities towards society generally. I suggested that these demands may frequently conflict and, when they do, there is no guidance available to help resolve that conflict. This results in a tendency to engage with issues of Corporate Social Responsibility only to the extent that they contribute to maximising shareholder value, or, at least, are not deleterious to it. I also observed that it may have been the overriding concern with shareholder value that was the ultimate cause of the 2008 banking crisis. I observed that, as a product of this crisis, many shareholders were frustrated to discover their impotence in terms of influencing the conduct of their businesses, particularly in respect of levels of executive remuneration. Consequently, I defined my purpose in carrying out this research as being to determine a manner in which business might be conducted so as to mitigate the conflict between shareholder value and social responsibility and provide directors of businesses with a greater degree of clarity regarding their responsibilities.

From the above, I established four distinct objectives that the research was to achieve. They were, to establish a conception of how business should best be conducted that might accommodate both stakeholder and shareholder demands; to establish a link between the interests of stakeholders and shareholders, such that effective guidance for directors can be provided in respect of discharging their legal responsibilities; to identify the means by which shareholders can make clear to their directors how they wish their businesses to be conducted and exert sufficient influence to improve the prospect of their wishes being met; and to determine a mechanism by which businesses can pursue maximum shareholder value yet still make a valuable contribution to society.

I believe that the research has achieved those objectives and in doing so has proposed a completely new form of business accreditation: “Eudaimonic Accreditation”, as I have called it. Eudaimonic accreditation, supported by the innovative model of share ownership that I have defended, can be seen to offer a practical solution to an apparently intractable problem. It is

voluntary in nature, allowing owners freedom of choice over whether or not they wish their businesses to make a contribution to society, thus preserving the primacy of ownership. However, eudaimonic accreditation, if chosen, commits a business to a form of conduct that is based on normative stakeholder theory.

Directors of eudaimonic businesses have a complete understanding of their responsibilities because eudaimonic accreditation is a formal process with closely defined requirements, in the form of a standard scorecard, which is independently audited. Shareholders are empowered to have their businesses' Articles of Association state that they are designated as “Eudaimonic” or “Financial Maximiser”, thereby making clear to directors, and other stakeholders, how its owners wish their business to be conducted.

The concept of “Representative Organisations”, a component of the proposed model of share ownership, provides a mechanism by which the influence of small shareholders can be increased in terms of the conduct of their businesses by their directors and the level of remuneration that such conduct deserves. Finally, the relief from Corporation Tax, awarded to businesses which achieve eudaimonic accreditation, serves to contribute to their sustainability that might otherwise be threatened if businesses were to unilaterally pursue social goals.

Clearly, implementing eudaimonic accreditation, in the form which has been defended in this thesis, will require significant changes to current practices. There are four major requirements that emerge. These are, formalisation of the concept of the “Big Society” (with perhaps some other name so as to reinforce the decoupling of this concept from its recent political use); creation of a system of eudaimonic accreditation; creating the necessary fiscal arrangement; and restructuring the Stock Market. These are not easily achieved and it might be claimed that the idea of businesses forming partnerships with local communities for which they receive rewards in the form of tax relief is naively optimistic. It may be argued that the nature and scale of the structural changes that would be required are too great and the political will to bring them about too weak for the concept of eudaimonic business to become a reality.

However, examination of the four areas where change is needed reveals that there is already, to a greater or lesser extent, political or public pressure for change. Furthermore, this change is consistent with that which is required by the analysis presented here. What appears to be lacking is an overall strategy that links the various initiatives to a particular goal and an appropriate platform from which to launch it. The concept of “Eudaimonic Business” might satisfy these requirements.

As was observed in Chapter 2, the State is the accepted political unit and it is at the level of the State that the strategy will have to be implemented. However, as noted in Chapter 4, Stiglitz argues that as we are dealing with global issues we require some form of global governance to regulate them. Thus, an examination of the requirements of the four main areas of change will have to be made from these two perspectives.

Throughout the thesis the argument has been for a conception of local communities for which the name "Big Society" has been adopted as shorthand. Although the name has been borrowed from a political initiative by the Conservative Party in the UK the idea deployed here is distinct from that initiative. Nonetheless, there are elements of the distinctive use to which the concept has been put present in the thinking of both main political parties in the UK, resulting in the labels "Red Tory" (Blond, 2010) and "Blue Labour" (Glasman, 2010) signifying that both parties are attempting to occupy each other's traditional political territory.

The nature of the Big Society as a political initiative has been discussed above but "Blue Labour" thinking also involves ideas central to this thesis, such as, "...democratic entanglement [of the market] in regional, civic and vocational relationships" (Glasman, 2011:33). Notwithstanding that these political ideas lack a number of the features of the conception of a Big Society defended here - such as the manner in which communities are integrated with local and national government and the partnerships that they form with business - they do indicate that there is a strong political will, in the UK at least, to develop policies that could be adapted in such a way as to make the conception of the Big Society a reality.

However, a globally applicable conception of the Big Society requires a model of eudaimonic partnerships that can be applied to any community anywhere in the world. Such a model might also be considered to require a global level of input to the role of overseer ascribed to the State. The former of these two requirements might be met by utilising the scorecard developed by Caux Roundtable which was based on principles which "...articulate a comprehensive set of norms that could be embraced by a business operating internationally and in multiple cultural environments" (Goodpaster et al., 2002:50). The second requirement could be satisfied through the offices of the United Nations. Reed and Reed point out that "...since the time of Kofi Annan the UN has been particularly receptive to working with business on its CSR agenda. Indeed, it has been the UN system that has most actively advocated and embraced the notion of partnerships" (Reed and Reed, 2009:12).

Reed and Reed observe that one of the problems that have been encountered in terms of the UN promoting partnerships is the lack of a standard measure of development required to establish the success of a particular partnership. The capability of happiness, which forms the basis of eudaimonic partnerships, can provide such a measure but to be effective businesses engaged in them must be subject to an accreditation process. It was suggested that the Investors in People model of accreditation based on the Caux SAIP scorecard would be appropriate. This could be administered at a national level by an organisation such as the UK's Audit Commission with overall coordination provided by the UN. However, such a mechanism requires research which goes beyond the scope of this thesis.

Businesses that achieve eudaimonic accreditation are deemed to have created an externality which should be paid for by tax allowances. However, if such an arrangement is to be successful there must be at least two conditions that prevail. Firstly, there must be global agreement on the most effective means of imposing tax at a national level such that tax relief awarded to eudaimonic businesses actually reflects the contribution made to the capability of happiness. Secondly, tax evasion or avoidance must be eliminated or, at least made more difficult, such that the tax relief available to eudaimonic businesses is perceived as being beneficial to them.

It appears that the basis for achieving such an outcome exists. Stewart (2003:170) suggests that there is a "remarkable consensus" on international tax planning which could be of particular benefit to developing countries. She sees the consensus as having been brought about largely through the influence of major institutions such as the IMF, World Bank and the OECD. This is a view seemingly endorsed by Kofi Annan (2013) who, following the G20 summit meeting in St. Petersburg,¹³⁵ commented that "Global tax reform would seem an unlikely issue to excite and unite the world. Yet as public anger grows over the unconscionable scale of tax avoidance by multinational companies, such reform has become a low-hanging political fruit. Who could challenge the need?" He went on to urge the G20 to include Sub-Saharan Africa in their tax reform plans which involved an OECD action plan.

It appears that international businesses in particular will go to considerable lengths to avoid paying tax and one of the consequences of this has been the emergence of organisations offering tax avoidance planning for multinational businesses. It is reported that Barclays Bank had a tax avoidance division whose income exceeded one billion pounds a year between 2007 and 2010. Nonetheless, as tax avoidance is met with strong disapproval by the general public,

¹³⁵ 5/6th September 2013

in order to protect its reputation, Barclays took the decision to close this department (Treanor, 2013). Reputational damage is also a threat to businesses who engage directly in tax avoidance. This is particularly the case with well-known businesses such as Starbucks, Amazon and Google who have experienced public condemnation in the UK since it was revealed that they have been paying little or no Corporation Tax on very substantial levels of turnover (Barford and Holt, 2013).

It seems that there are two opposing forces at work here. On the one hand, businesses are prepared to spend considerable time, effort and expense on finding means of avoiding tax. On the other hand, the general public disapprove of such of such activities, to the extent that businesses engaged in them risk damage to their reputation. However, my investigations suggest that, in the context of eudaimonic accreditation, this situation could be avoided. Under such circumstances, if businesses devoted their energies to contributing to the capability of happiness, they would be awarded the tax relief they seek. Furthermore, not only would they not be incurring a reputational risk, eudaimonic accreditation would be reputation enhancing. Consequently, it would seem that research into a global system of Corporation Tax, suitable for the purposes of eudaimonic accreditation, would be welcomed and worthwhile.

As I have argued, seeking eudaimonic accreditation is a choice which is reserved for the owners of businesses. However, where the business is a corporation it is owned by its shareholders and this, as I explained in Chapter 7, creates particular problems. In order to address these problems I outlined a system of share ownership and corporate governance. The main elements of this system consisted of a statement in the Report and Accounts defining the status of a particular business as “Eudaimonic” or “Maximising” and a system of legal and beneficial share ownership. The latter is essentially a combination of the American practice of holding shares in “Street Name” with representational organisations such as NAPF or ABI. It serves to clarify the status of shareholders as owners of a business, increases the effectiveness of shareholder voting and imposes accepted standards of corporate governance. As all of these outcomes are, to some extent at least, supported by shareholders and encouraged by governments it would appear that they might be worthy of research into their viability. However, as corporations can be listed in stock markets all over the world, once again, such research would need to be conducted at a global level.

It can be concluded from the above that there is a recognised need for, and a will to pursue, action on the principal issues concerning the establishment of eudaimonic business status. The concept of eudaimonic business is only one means by which these issues might be addressed

but it seems to offer a number of important benefits. Firstly, my enquiry began with the Aristotelian premise that all rational people have the ultimate goal of being happy and went on to establish that the rational pursuit of happiness involves the acquisition and exercise of virtue and requires possession of at least the threshold level of ten capabilities. I described this, after Brodie, as the possession of a sufficiently populated “Eudaimonic Field” and suggested that having the ability to create such a field constitutes the capability of happiness. I went on to establish that it is the responsibility of the State to provide all its citizens with the capability of happiness and that in order to do so it requires the assistance of business. I described businesses that contribute to the capability of happiness as “Eudaimonic”. Consequently, it is a major benefit of eudaimonic businesses that they contribute directly to the happiness that all people desire.

Secondly, I noted that eudaimonic businesses create an externality that must be paid for by the State and in this way are able to reduce the threat to sustainability that pursuing Corporate Social Responsibility might be thought to create. Furthermore, as they form partnerships with local communities that are mediated by the State, eudaimonic businesses are able to legitimately pursue social welfare goals. In addition, as eudaimonic status is freely chosen for a business by its owner and because, as a eudaimonic business, it is subject to “micro-regulation”, it is compatible with the principles of the free market. By virtue of the manner in which they form partnerships with local communities whilst being compatible with, and avoiding the dangers of, the free market eudaimonic businesses can be considered to strengthen political initiatives such as the “Big Society” or those described as “Blue Labour”.

Finally, where the businesses involved are corporations, the changes to corporate governance that I suggested as being beneficial to establishing eudaimonic status would be beneficial to the development of Corporate Social Responsibility. This would result from increasing the power of shareholders to influence the conduct of business executives whilst clarifying the fiduciary responsibilities of managers and defining those areas of their responsibility where they have discretion to act strategically. Not only would the above benefits potentially accrue from realising the concept of a “Eudaimonic Business”, such a project would also serve to unify a number of currently disparate political initiatives. In view of this, eudaimonic accreditation can be considered to be a practical solution to a serious problem. Furthermore, it would seem that research and subsequent restructuring that would be required to establish the eudaimonic status of businesses would be fully justified.

Appendix 1

The Investors in People Framework



A representation of the generic ten point framework used by Investors in People in order to produce a thirty nine point scorecard specific to each business.

(Investors in People, 2014b)

Appendix 2

An Example of the Caux Roundtable Self-Assessment and Improvement (SAIP) Scorecard

Category	1 Fundamental duties	2 Customers	3 Employees	4 Owners/ operators	5 Suppliers/ partners	6 Competitors	7 Communities
1. Responsibilities of business	1.1	1.2	1.3	1.4	1.5	1.6	1.7
2. Economic and social impact of business	2.1	2.2	2.3	2.4	2.5	2.6	2.7
3. Business behavior	3.1	3.2	3.3	3.4	3.5	3.6	3.7
4. Respect for rules	4.1	4.2	4.3	4.4	4.5	4.6	4.7
5. Support for multilateral trade	5.1	5.2	5.3	5.4	5.5	5.6	5.7
6. Respect for the environment	6.1	6.2	6.3	6.4	6.5	6.6	6.7
7. Avoidance of illicit operations	7.1	7.2	7.3	7.4	7.5	7.6	7.7

Example Cell Content

3.4 Owners/Investors

How, and to what extent, does the company elicit the trust of owners/investors (e.g., through responsible disclosures, timely and complete responses to shareholder/investor inquiries, governance policies and practices, comprehensive and accurate external audits, etc.)?

(Goodpaster, 2003)

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