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Is Ethics Rational? Teleological, Deontological and Virtue Ethics Theories Reconciled in the Context of Traditional Economic Decision Making

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Abstract

This article examines the most prominent ethical theories from the view point of economic rationality. Authors argue that utilitarian perspective which used to be connected with classical concepts of rationality in economics is not the only approach to understand reasoning behind the human behaviour. Moreover, Virtue ethics developed by Aristotle more than 2000 years ago, gives modern perspective to the questions of morale and ethics, connecting individuals to broader communities and explaining their motivation and actions. Similarly, deontological theories that from the first sight might seem as contradicting to rational choice, explain human behaviour when examined at the macro level of analysis. This conceptual analysis concludes that various elements from different theories on ethics are able to provide more profound model of reasons behind human behaviour in comparison to basic assumptions in classical economics.

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1. Introduction

Motives that stand behind human behaviour have been an important question for investigation in various social disciplines. Economics is one of the sciences where complicated theories are substantiated on the basic assumptions considering human behaviour that are taken for granted and not questioned. Moreover, economic science tries to help solving practical problems. The development of practical problems does not consider boundaries between

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different branches of science. Particularly affected are those branches that study human behaviour and that have been reduced to theoretical concepts for theoretical reasons (for the sake of simplifying) and that foresee the removal of values and moral standards – something that has been previously applied towards economics. Economics is a regulatory science with assumptions and forecasts on micro and macro phenomena, based on a notion that human beings are completely rational – the so-called *Homo Oeconomicus* – who make all decisions with personal interests in mind and with no concern for others (Casson, 1995; Ulrich, 2012).

In this article authors are analysing three major groups of theories on ethics from the viewpoint of ability to explain reasoning behind human behaviour. Teleological theories and utilitarianism for a long time have served as a basis for assumptions on economic choices that individuals are making in everyday lives. Deontological ethics and Kantian imperatives are stressing universal moral principles that should be implemented by individuals, whereas Virtue ethics developed by Aristotle puts individuals in complicated net of embedded relationships that is the only path to achieve real happiness and satisfaction. In the discussion part of the article authors are providing summary of the key elements from all three main theoretical branches of ethics in connection to the concepts of economic rationality. Then new model on the reasons behind human behaviour is proposed that takes into account both economic and moral motives.

Nowadays, it has been proven that human economic behaviour is much more complex than the assumptions of *Homo Oeconomicus* model. Numerous experiments have proven that people usually follow universal principles of fairness, including those situations with no punishment for unfair conduct.

Here follow the findings from empirical studies:

- (i) Individuals care about their own material well-being;
- (ii) Individuals take into consideration interests of those whom they know very well;
- (iii) Individuals are ready to sacrifice their own material well-being to reward those who have been kind to them and to punish those who have treated them unwell;
- (iv) Individuals take into account the well-being of those outsiders whose interests have been affected by the decisions of individuals;
- (v) Individuals care about their own reputation in the sense of what others think of their behaviour;
- (vi) Individuals care about their self-conception (Jolls, et al., 2000; Bowles and Gintis, 2011).

Neoclassical economics' assumptions about human rationalism applied in the decision making have been criticised for a long time. For example, Frank Knight, considered to be the founder of Chicago School of Economics (Casson, 1995) due to his major influence upon his distinguished students – Milton Friedman, George Stigler and Allen Wallis – in his publication “Ethics of Competition and Other Essays” (1935) compares the so-called economic man with a social man by claiming that human behavioural motives are mostly dependent on ethical values prevailing in a relevant social group (Knight, 1935).

In English literature, notions “morality” and “ethics” are frequently used as synonyms that have originated from different stems – the Latin word *moralitas* and the Greek word *ethikos* (Boatright, 1997).

Morality describes a sociological phenomenon – a presence of certain rules and standards in the society. Moral norms present in each society serve as a basis to ensure human intercommunication that is mutually beneficial. Without such fundamental rules as “Don’t kill!” and “Don’t steal!” a stable society would not be possible. However, it should be noted that not all rules are related to moral norms. For example, eating with a knife and a fork is part of a cultural etiquette while crossing the street on a green light is part of observing traffic regulations and not an adherence to social moral standards.

The word “ethics” is frequently applied when talking about moral standards of a particular social group or a profession (such as medical ethics and not a medical morality). The word “ethics” conveys also another meaning. Ethics combined with logic, epistemology and metaphysics is a traditional cognitive sphere that originated in Ancient Greece. It can be descriptive or regulatory. Descriptive ethics studies current norms and behavioural standards that exist in a certain social group or tries to understand processes of an ethical argumentation or decision making. On the other hand, regulatory ethics carries out a theoretical scrutiny of moral principles based on the argumentation and fundamental moral principles.

2. Main Groups of Ethical Theories: Teleological, Deontological and Virtue Ethics

Ethical theories are usually divided into the three big groups. Very widespread is the division into teleological, deontological and virtue ethics theories (Boatright, 1997; Fisher, 2003; Jonsson, 2011; Belak, Rozman, 2012).

Teleological ethics theories are based on an assumption that a decision behind certain conduct has to be based on an assessment of a respective outcome. The name itself “teleology” has originated from a Greek name “telos” which means “an end”. Thus, an action itself cannot be good or bad; however, an outcome or an impact of this action upon involved parties can be either positive or negative. Utilitarianism is a classical teleological theory that is widely applied in economics when explaining rational decision making (more details are provided in further chapters). The 18th-century philosopher Jeremy Bentham and the 19th-century scientist John Stuart Mill are considered to be Utilitarianism authors. It was Mill who created the term “Utilitarianism”. This theory assumes that efficiency and pursuit towards a higher satisfaction level lie at the basis of human morality. Thus, each conduct is right if it increases satisfaction and happiness, and wrong - if it causes the opposite. Quoting Bentham:

“The greatest happiness of the greatest number is the foundation of morality and legislation.” (*Bentham, 1994: 142*)

An interesting question arising out of Utilitarianism is “What is happiness?” In this context, a plain sensual pleasure was originally regarded as happiness. Therefore, Bentham was harshly criticised in his time – according to his definition, one was better off “being a pig satisfied than an unhappy Socrates” (Boatright, 1997). John Stuart Mill took Bentham’s concept further by promoting a hierarchy of pleasure. Therefore, he was able to claim that “it was better to be a human being dissatisfied than a pig satisfied” (Mill, 1998: 140). Consequently, Mill’s Utilitarianism concept is not restricted to material benefits. Utilitarianism theory is based on calculations – it is believed that the quantity and quality of happiness can be measured. Bentham (Bentham, 1982) defined the following characteristics to be accounted in calculations:

- Intensity;
- Duration;
- Certainty – a probability of happiness or suffering taking place;
- Volume – a number of involved individuals;
- Time – whether happiness or suffering will happen now or in the future;
- Future consequences – whether the particular activity bring benefit also in the future;
- Purity – whether the outcome delivers solely benefit or does it bring also suffering?

In the economic context, benefit maximization is considered to be the same as profit or capital maximization. However, the application of Utilitarianism principle means also taking into consideration interests of all involved parties and consequences that are caused by actions applied towards them. For this purpose, the so-called Cost-benefit analysis can be applied in the more important decision making or project evaluation as it foresees a calculation of project costs and an assignment of the monetary value to the entire project outcome (including non-material outcome) (MacIntyre, 1992). Its application in real life, though, is quite challenging – it is not so simple to assess the value of a non-polluted area or a picturesque view through the factory’s Cost-benefit analysis (in this case, Real estate value method is applied when prices of the real estate next to the factory are compared to those of non-industrial territories). It is even more challenging to compare a relatively small benefit gained by a major part of the society and large damage caused to a marginal group (Boatright, 1997; Kelman, 1992). The so-called Valuation Theories, highly popular nowadays, address particular issues.

In difference to afore described Teleological theories, Deontological theories stress the presence of universal ethical principles that need to be followed irrespective of the outcome. The name “deontology” has been derived from the Greek origin name “deon” -meaning “duty”. The founder of classical Deontological theories is Immanuel Kant, the 18th-century German philosopher from Prussia. Deontological theories stress the importance of motives behind a conduct next to an outcome. Consequently, ethical behaviour is driven by a duty and not a remuneration.

Kant has defined the so-called *Categorical imperatives* or non-conditional (exception free) principles that are universal and are followed regardless of circumstances. Kant's ethical principles are valid regardless of the context and consequences of the decision made. For example, lies are unacceptable under all circumstances including a potential lifesaving.

To decide whether a particular conduct can be morally justified, one has to assess its eligibility if all individuals were engaged in it. Coming back to the example of lies – if everyone started to lie, the truth would become worthless and people would not be able to trust each other anymore; consequently, it would pose certain limitations on everyday life, with no exception to economic transactions (trust factor in economics has been addressed in the previous chapter).

One can add to *Deontological* principles the Golden rule prevailing in many world's religions: "Do unto others as you would have them do unto you" (Shaw, Barry, 1998). It is an example of *Categorical imperatives* to be observed regardless of circumstances. It is obvious, however, that this principle is not adhered to in business relationship. For example, a certain exaggeration and bluffing is an accepted norm of conduct in negotiations (Boatright, 1997, Carr, 1968). Certain researchers even think that the so-called Golden rule is not applicable in entrepreneurship since entrepreneurs mostly engage in activities that they would not want to be applied towards them (Carr, 1968; Burton, Goltsby, 2005).

Deontological theories seem to contradict basic principles of *Homo Oeconomicus* in the sense that motives behind human conduct are based on an attempt to maximize benefit. Kant's Duty Theory does not fit the classical economics rationality model that is based on Utilitarianism philosophy postulates and will be addressed in more detail in next subchapters. An individual following universal ethical principles and never breaking them regardless of consequences of such conduct, will be viewed upon as an anomaly with a deviation from a normal and economically rational behaviour.

On the other hand, a number of *Deontological theories'* researchers believe that categorical imperatives are based on the choice of rational humans, though this rationality differs from Utilitarianism rationality. The basic principle of *Deontological theory* - behaving in a way that we want everyone to follow - is rational for it would promote the entire society's welfare (Wiggins, 2006; Belak, Rozman, 2012).

The semblant contradiction between *Deontological ethics* and Economics theory arises if we analyse each individual's decision making motives. However, on a macro level of analysis, we can conclude that key economic activity principles are based on the society's compliance with norms (both formal and informal) next to adoption of certain rights and institutions (such as private property rights, contractual rights, social guarantees and others). The influence of rights and regulations upon the individual, corporate and the country's economic conduct is widely recognized. Such *deontological* concepts as *rights, duties, equality and norms* have been widely analysed in political economics, institutional economics, socio-economics and ecological economics. It is mostly accepted that rights and regulations influence economical behaviour by restricting individual choice. Such restriction is required to ensure the freedom of other participants of economical relationship. Often it is analysed in the context of the free trade - anti-dumping law and monopoly restrictive trade practices – these are examples of *deontology ethics*, universal morality norms that are promoted by the law (Van Staveren, 2007).

Another interesting group of ethical theories are the so-called *Virtue Ethics*. These theories originated in Ancient Greece and have been associated with Aristotle. In this case, moral conduct is not determined by universal conduct code or an outcome of a specific action (as per the afore described Teleological and Deontological theories) but by specific personal traits that guarantee the right choice in front of moral dilemmas. Happiness is also covered in *ethical* concepts for certain personal traits ensure a good, ethical and, consequently, a happy life. Yet, the Ancient Greek word *εὐδαιμονία* (eudemonia) which is usually translated as "happiness" does not mean happiness in a hedonic meaning but an honest ethos based life that can be the only way to lead a fulfilled and meaningful life (MacIntyre, 1967).

Thus, the object of Virtue ethics' analysis is not an ethical conduct but personal traits that ensure taking ethically correct decisions. In this case, a personal trait exhibited as a habit is considered to be a virtue. Petar O. Jonsson, widely recognised as a researcher of Virtue ethics and its relationship with economic theories, has come up with the following definition: "A virtue can be thought of as a habit or character trait that is part of one's identity and that affects one's behaviour" (Jonsson, 2011: 31).

We can claim that a person is honest if we have observed him or her behaving honestly on several occasions. Furthermore, virtue is something admired in other people. Thus, we accept virtue's universal nature – it suits everyone and not merely representatives of certain professions or industries. In addition, virtue has got a rational

foundation – it helps to reach set goals and to lead a complete life. For example, honesty increases trust that is helpful in mutual relationship and entrepreneurship. Courage helps in overcoming hardships. Whereas lack of virtues such as moderation will aggravate any situation as the person will be subject to different temptations and addictions.

It should be noted that personal traits deemed to be requirements for a moral life do not stay forever but change as the time goes by, for they depend on reigning social norms and values. For example, in Homer's time - 400 years before Aristotle, a period of continuous wars - militancy was regarded as an ethical trait. During the later Athens city-state period which saw the development of Aristotle's *Moral ethics* concept, among the most important personal traits were intelligence, courage, self-control and justice. It was also believed that it was exclusively the prosperous aristocracy that were endowed with these virtues. Albeit Christianity introduced a number of significant changes in the list of the adopted ethical traits – in difference to Ancient Greek beliefs, slaves and the poor were regarded to be more ethical than the rich. In turn, industrial revolution defined other personal traits that became important in the 18th-century. For example, Benjamin Franklin advanced such virtues as cleanliness, punctuality and frugality, all having utilitarian nature (McMyler, 1994). However, contemporary authors that study aspects of moral ethics in modern international corporations distinguish such virtues as honesty, sense of responsibility and fairness, as well as the presence of vision and an ability to implement it in real life (Bertrand, 2009; Moore, 2013; McCloskey, 1998; Jonsson, 2011).

It is important to note that *ethical concept* developed at the time when interpersonal relationship played a huge role – only those members of the society who were deeply integrated into their respective social classes and served their interests in good faith were deemed ethical. Besides, morality and ethics referred exclusively to the members of one's circle. Consequently, we can claim that *Virtue ethics* is closely linked with collective values. Furthermore, *Virtue ethics* is related also to the concept of social capital. Interpersonal relationship and an ability to work towards a mutual goal are based on common standards serving also as a basis for virtues presented in a certain social group. Besides, *Virtue ethics* is closely related to values for they determine which personal traits will be deemed as virtues in certain societies - something that changes throughout the course of time.

3. Theories of Ethics in the Context of Economic Rationality and Decision Making

The given summary of the three most significant groups of business ethics theories – Teleological, Deontological and Virtue ethics – allows to conclude that there are both differences and similarities between them. Until now, basic principles of the classical economics on the human conduct and decision making were based on the Utilitarianism philosophy concepts that present human as a being who attains maximization of the personal benefit through constant calculation of gains and benefits that the conduct brings. For example, Becker and Stigler in their article "*De Gustibus non est Disputandum*" (which is regarded now as "classics") analyse human conduct's motives from economics theory's perspective (Becker, Stigler, 1977). Both authors promoted an idea that rationality was expressed as the human desire to maximise personal benefit, based on meeting such fundamental needs and instincts as survival, sexuality, jealousy, revenge, need for relationship with others, need for success and gratitude etc. Most authors of classical economics rely on these basic assumptions. It should be noted that Utilitarianism does not disprove altruism or unselfish treatment of others, for even such motives can be added to individual's economical utility function (Becker, 1996; Andreoni, Miller, 2005).

Utilitarianism philosophy regards the attainment of happiness as the ultimate goal of human activities. The very same ultimate objective is present also in the concept of *Virtue ethics*. However, happiness according to Utilitarianism is reaching the personal benefit whereas *Virtue ethics* stresses human interpersonal relationship where happiness is possible as a result of moral lifestyle and service to the society. One can claim that the concept of *Virtue ethics* possesses a distinct collective nature.

Similar to Teleological theories, Deontological theories are very individualistic. Although basic principles of categorical imperatives are general conduct norms promoting welfare of the entire society, an individual as a decision maker is completely independent and autonomous in his actions. The individual is not involved in any relationship that would promote making exceptions and deviations from universal principles, to meet needs of a social group of importance to him.

Nowadays many authors believe that *Virtue ethics* is the best to explain the human conduct and can be related to economics. *Virtue ethics* combines an attainment for better results and an adherence to certain moral standards. In

difference to teleological approach, it does not, however, solely focuses on the function of the welfare maximisation but considers also interpersonal relationship and the need to serve the society in good faith, next to emotions as an important part of the conduct, proven nowadays to be a powerful motive behind the human conduct. Moreover, in difference to deontological approach, *Virtue ethics* does not claim responsibility and established moral standards to be the key motives behind moral conduct; instead, it stresses contextual factors of conduct and reigning social values (Cramer et al., 2005; Wentura and Degner, 2010; Jonsson, 2011; Van Staveren, 2007; Burton and Goldsby, 2005).

4. Ethics and Ratioanality Reconciled

Lately, such research field as Behavioural ethics has been evolving. In difference to the afore described Classical ethics theories – the so-called Normative theories substantiating human behaviour under ethical dilemmas, Behavioural ethics is descriptive as it studies the individual decision making under ethically challenging real circumstances. Through the definition of Behavioural ethics one can claim that it studies “individual systematic and predictable ethical decision making that contradicts both intuition and welfare of a broader society” (Bazerman, Gino, 2012: 95).

Linda Trevino and co-authors have produced a different definition of Behavioural ethics. Here Behavioural ethics is defined as a discipline that “studies individual behaviour, assessed on the basis of universal moral standards” (Trevino, et al., 2006: 952).

A slightly different, though a similar definition of Behavioural ethics has been provided by other authors:

“Behavioural ethics explains individual conduct that is formed in a broader interpersonal and norm context” (Tenbrunsel & Smith-Crowe, 2008: 548).

One can claim that Behavioural ethics is the next practical step after Classical philosophical ethics theories that aids in making decisions under complicated circumstances. Behavioural ethics focuses on the decision making in real life and is closely related to behavioural economics for it attempts to explain, comprehend and systematize the so-called irrational decisions that - through paraphrasing one of the aforementioned definitions- contradict intuition, personal benefit gain and welfare of a broader society.

Amitai Etzioni has proposed an interdisciplinary theory that merges assumptions of economic rationalism and ethical considerations, and has named it a Socio-economic behavioural model. The author has created the so-called I- and We-Paradigm that “sees individuals as able to act rationally and on their own, advancing their self or “I”, but their ability to do so is deeply affected by how well they are anchored within a sound community and sustained by a firm moral and emotive personal underpinning – a community they perceive as theirs, as “We”” (Etzioni, 1988: 63).

According to Etzioni’s decision making model, individuals act primarily out of their emotions and values, and only then consider empirical-rational factors. In this model, decision making is defined by two factors: pleasure and morality (although both reflect interpersonal socialization). There are significant differences in the role played by each factor under different historical and social circumstances, and through different personalities under the same circumstances. The objective to attain as big pleasure as possible is determined by human rationalism; however, moral principles lie at the basis of an ethical behaviour. Pleasure and moral principles are interlinked, although both of them determine the human choice. In the meantime, each factor holds sufficient autonomy (Etzioni, 1988).

Etzioni concludes that people do not try to maximise so much their pleasure or economic welfare as balance the two objectives: the welfare improvement and the conduct in line with moral standards (Etzioni, 1988: 83).

5. Conclusions

Ethics is important as it helps in explaining reasons standing behind human behaviour. Teleological theories on ethics with their concept of utilitarianism used to serve as the main explanatory factor driving human behaviour in economics. However, nowadays other groups of ethic theories are examined by various authors as a helpful tool to ground theoretical models of human behaviour. Moreover, teleological, deontological and virtue ethics have several similarities and equal explanatory power depending on the level of analysis, conceptual models and theoretical boundaries of the studied phenomenon. Traditional drivers of human behaviour examined in classical economic models are based on the assumptions of rationality that stems from the philosophical concepts of utilitarianism and

maximisation of pleasure and self-interest. Though this is a valid conjecture, there are other motives making human behaviour models more complicated, but at the same time more able to explain and predict real life.

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