THE CAPABILITY APPROACH AS GUIDANCE FOR CORPORATE ETHICS

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Summary

The article attempts to make the capability approach fruitful for corporate ethics (i.e., the ethics of business organizations) in two parts. The first part presents the capability approach. After a short historic overview of its development advanced by Amartya Sen and Martha Nussbaum, the question about an adequate informational basis for interpersonal comparisons is raised, and traditional answers of the utility-based and resources-based approaches are criticized. Against this backdrop, the essential elements of the capability approach, common to Sen and Nussbaum, are highlighted and some foundational implications of Sen's capability approach in particular are explained, followed by a few considerations on the limitations of the capability approach. The second part discusses the application of the capability approach to corporate ethics. Beginning with three basic assumptions on corporate ethics, the application includes a critique of "value-free" economics and other business disciplines and an enrichment of the notion of rationality. It stipulates a sensitivity to issues of poverty and distribution and elaborates on the focus on functionings and capabilities. The article ends with a few concluding remarks.

Keywords

Business ethics, capabilities, corporate ethics, ethics-related approach, functionings, human development, human rights, primary goods, inequality, informational basis, Nussbaum, Pareto criterion, poverty, rationality, Rawls, self-interest, Sen, Stiglitz-Sen-Fitoussi report, utilitarianism, wealth creation.

Introduction

If one blind person guides another, both will fall into a pit (Matthew 15:15).

Guidance without adequate informational basis is misleading and can have catastrophic consequences. This holds true for entire societies as for personal lives, for economies as for business organizations.

Over a long period of time, increasing concerns have been raised about the adequacy of current measures of economic performance, especially those based on GDP figures. Furthermore, there are broader concerns about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability. Therefore, the Commission on the Measurement of Economic Performance and Social Progress, initiated by the French government, was created in early 2008 in order to address these concerns. Under the leadership of Professors Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, the Commission published its final report on September 14, 2009. There it states:

> The whole Commission is convinced that the crisis is teaching us a very important lesson: *those attempting to guide the economy and our societies are like pilots trying to steering a course without a reliable compass* (emphasis G. E.). The decisions they (and we as individual citizens) make depend on what we measure, how good our measurements are and how well our measures are understood. We are almost blind

> when the metrics on which action is based are ill-designed or when they are not well understood. For many purposes, we need better metrics. Fortunately, research in recent years has enabled us to improve our metrics, and it is time to incorporate in our measurement systems some of these advances. There is also consensus among the Commission members that better measures may enable us to steer our economies better through and out of crises (Report 2009, 9).

After discussing "classical GDP issues," the Report addresses the conceptualization and measurement of "quality of life" and "sustainable development and environment." For the purpose of this article, we focus on the capability approach that prominently figures as one of the approaches to capture quality of life, besides the approaches based on the notions of subjective well-being and fair allocations. As is well known, the capability approach has been developed by Amartya Sen and Martha Nussbaum and represents today a coherently elaborated body of knowledge, which has served as the basis for numerous public policy issues at the national and international levels. Suffice it to mention the annual *Human Development Reports* published by the United Nations Development Program since 1990.

One might, therefore, ask how the capability approach can be made fruitful for business and economic ethics. For those familiar with Sen's work, there is no doubt that Sen has made seminal contributions to lay new foundations for business and economic ethics, ranging from opening economics to ethical considerations, to enriching motivations for economic behavior, and assessing economic and social achievements in terms of freedoms and capabilities. Throughout his professional career, Sen has paid close attention to these foundational issues, documented in numerous publications, for instance, in Sen 1977, 1982, 1984, 1985, 1987, 1999, and 2009 (see also Morris 2010). On various occasions, he also has spoken on business ethics, for example, at the International Conference on the Ethics of Business in a Global Economy, held 1992 in Columbus, Ohio (Sen 1993), and at the First World Congress of Business, Economics, and Ethics 1996 in Tokyo (Sen 1999a). Moreover, he writes extensively on capitalism and business ethics in *Development as Freedom* (Sen 1999). Thus he can rightly be called a pioneer and trailblazer of contemporary business and economic ethics.

Nevertheless, it is fair to say that until now the capability approach has been used only rarely in "business ethics" (or corporate ethics) understood as the ethics of business organizations, which differs from individual ethics and the ethics of economic systems. Therefore, it appears appropriate to explore the potential and limitations of the capability approach for corporate ethics. Thereby, Sen's foundational work will also be considered insofar as it relates to this question.

The article includes two parts. The first part presents the capability approach. After a short historic overview of its development advanced by Amartya Sen and Martha Nussbaum, the question about an adequate informational basis for interpersonal comparisons is raised, and traditional answers of the utility-based and resources-based approaches are criticized. Against this backdrop, the essential elements of the capability approach, common to Sen and Nussbaum, are highlighted and some foundational implications of Sen's capability approach in particular are explained, followed by a few considerations on the limitations of the capability approach. The second part discusses the application of the capability approach to corporate ethics. Beginning with three basic assumptions on corporate ethics, the application includes a critique of "value-free" economics and other business disciplines and an enrichment of the notion of rationality. It stipulates a sensitivity to issues of poverty and distribution and elaborates on the focus on functionings and capabilities. The article ends with a few concluding remarks.

The Capability Approach and Its Foundational Implications

A concise summary of the capability approach can be found in the Stiglitz-Sen-Fitoussi Report:

> This approach [to measuring quality of life] conceives a person's life as a combination of various "doings and beings" (functionings) and of his or her freedom to choose among these functionings (capabilities). Some of these capabilities may be quite elementary, such as being adequately nourished and escaping premature mortality, while others may be more complex, such as having the literacy required to participate actively in political life. The foundations of the capability approach, which has strong roots in philosophical notions of social justice, reflect a focus on human ends and on respecting the individual's

> ability to pursue and realise the goals that he or she values; a rejection of the economic model of individuals acting to maximise their self-interest heedless of relationships and emotions; an emphasis on the complementarities between various capabilities; and a recognition of human diversity, which draws attention to the role played by ethical principles in the design of the "good" society. (Report 2009, 42)

Before discussing the features, strengths and limitations of this approach in detail, a short historic overview of its development advanced by Sen and Nussbaum is presented. Sen began to focus on capability in his Tanner Lecture at Stanford University in 1979 in the specific context of evaluating equality ("Equality of What?" in Sen 1982, 353-369). In *Poverty and Famines* (Sen 1981), the term of capability is not yet mentioned (while the concepts of entitlements and the ability to command enough food play a key role). Shortly after, the notion of capability gained much attention and elaboration: in the context of development, well-being and poverty, liberty and freedom, living standards and development, gender bias and sexual divisions, and justice and social ethics. Among the numerous publications, one might mention *Commodities and Capabilities* (1985), *Inequality Reexamined* (1992), and "Capability and Well-Being" (Nussbaum and Sen 1993, 30-53). In *Development as Freedom* (1999) the capability approach takes a center stage and is, again, masterly presented in *The Idea of Justice* (2009).

Nussbaum connected the capability approach with Aristotelian ideas in the 1980s and jointly edited the book *The Quality of Life* (1993) with Sen. She has made pioneering contributions to the development of this approach and has published numerous books and articles, documented in her most recent book *Creating Capabilities* (2011), which is a lucid masterpiece on capabilities and human development.

The capability approach starts from the experience that "all over the world people are struggling for lives that are worthy of their human dignity" (Nussbaum 2011, 1). As there is an enormous diversity of lives, many plagued by poverty, disease, disabilities, and violence, the search for a better world and more just societies appears inescapable. The question then arises how these lives can be compared – or what "informational basis" is adequate – in order to reduce injustices and advance good societies.

Critique of utility-based and resource-based approaches

This question is of paramount importance for empirical and theoretical studies as well as for ethical evaluations and public policies. If one chooses an informational basis that does not allow for interpersonal comparisons, one cannot, strictly speaking, make social judgments. This outcome was famously demonstrated by Kenneth Arrow's "Impossibility Theorem" (Arrow 1951).

Also, "the new welfare economics," spearheaded by Lionel Robbins in the 1930s, rejects interpersonal comparisons of utility and uses only one criterion of social improvement, namely the "Pareto criterion." This accounts only for the utilities of each person *separately*. Accordingly, the situation x of a group (or a country) is better than the situation y of this group (or country), if at least one person has more utility in x than in y and everyone has at least as much utility in x as in y. A situation is then described as "Pareto optimal" or "Pareto efficient," if and only if there is no other feasible situation that is superior to it in terms of the Pareto criterion. This means that Pareto optimality ignores the issue of the distribution of utilities and does not account for anything other than utilities (such as freedoms, rights, or opportunities). It goes without saying that, in comparing situations of men and women, ethnic groups, and entire nations, this criterion would generate bizarre results.

Because interpersonal comparisons are necessary for investigating and assessing social states of affairs, one may ask for the appropriate informational basis of comparisons. Broadly speaking, two influential sets of approaches can be distinguished. The first set is based on subjective feelings of persons and has been advocated, historically and most prominently, by utilitarianism with its different versions: the hedonistic view of utility as pleasure, utility as desire fulfillment and utility as preference satisfaction. More recently, studies of subjective well-being (i.e., about whether people are "happy" and "satisfied" with their lives) have been undertaken, and these studies show that it can be made amenable to systematic quantification (see Report 2009, 145-151).

The second set of approaches is based on “objective” resources such as income and wealth, which are discussed as “primary goods” in John Rawls’s *A Theory of Justice* (1971). Moreover, in the economics field, the welfare economics tradition and the theory of fair allocation have developed ways to include non-market aspects of quality of life into a broader measure of well-being (Report 2009, 153-155).

While Sen acknowledges the legitimacy and usefulness of subjective and objective approaches to quality of life, presented in the Report, for certain purposes, he strongly criticizes the utility-based and the resource-based approaches. The utility-based approaches suffer from two fundamental flaws. First, they aggregate the utilities simply by summing them together (an arithmetic addition), which is called “sum-ranking.” Therefore, the distribution of the utilities of individuals becomes irrelevant. Second, utilities are subjective, mental entities, which are shaped by the environments to which individuals have been exposed for a long time.

> The utilitarian calculus based on, say, happiness can be deeply unfair to those who are persistently deprived, such as the traditional underdogs in stratified societies, oppressed minorities in intolerant communities, precarious sharecroppers living in a world of uncertainty, sweated workers in exploitative industrial arrangements, subdued housewives in deeply sexist cultures. The hopelessly deprived people may lack the courage to desire any radical change and often tend to adjust their desires and expectations to what little they see as feasible. They train themselves to take pleasure in small mercies. The practical merit of such adjustments for people in chronically adverse positions is easy to understand: this is one way of making deprived lives bearable. But the adjustments also have the incidental effect of distorting the scale of utilities. (Sen 2008, 18-19)

Sen’s critique of the resource-based approaches (particularly Rawls’s notion of primary goods) is based on a differentiated understanding of the relation between goods and persons and the fundamental value of a person’s real freedoms (for a comparison of primary goods and capabilities, see also Brighouse et al. 2010). Sen distinguishes different categories that are involved in the relation between a good (say, a bike) and a person (see Sen 1982, 30):

goods	>>>	characteristics	>>>*conversion into:*>>>	functioning	>>>	capability
(e.g., a bike)		(e.g., transport)		(e.g., moving)		(e.g., able of moving)

“Characteristics” are qualities of goods, whereas “functioning” relates to a person’s *use* of those characteristics, e.g., *a bike* provides transport while *a person* moves and can move with it. The crucial point in this relation is that the goods with their characteristics are means to achieve the ends of the person. They are not identical with, but *converted* into the functionings and capabilities of the person. This conversion of goods in general and primary goods in particular depends on the characteristics of the person.

> For example, a person who is disabled may have a larger basket of primary goods and yet have less chance to lead a normal life (or to pursue her objectives) than an able-bodied person with a smaller basket of primary goods. Similarly, an older person or a person more prone to illness can be more disadvantaged in a generally accepted sense even with a larger bundle of primary goods. (Sen 1999, 74)

Against Rawls’s use of primary goods, Sen insists that the conversion problem that affects significantly disabled people should be addressed by choosing the informational basis with the focus on functionings and capabilities. After all, “the magnitude of the global problem of disability in the world is truly gigantic. More than 600 million people – about one in ten of all human beings – live with some form of significant disability” (Sen 1999, 258).

Sen’s emphasis on finding an adequate informational basis for comparing human lives can be explained by his life-long concern for the poor and his search to engage ethics and economics into productive interdisciplinary communication. On the one hand, the informational basis must reach the lives and freedoms of people; on the other hand, it has to be objective enough to allow for interpersonal comparisons. Moreover, it must include all people and hence be globally applicable. Thereby, both commonalities and diversities of human lives have to be taken into account, avoiding ethical imperialism as well as ethical relativism. Finally, the informational basis should allow sufficient room for multiple ethical theories.

Essential elements of the capability approach

Having discussed the importance of an adequate informational basis for interpersonal comparisons and criticized different prominent approaches, we ask what can the capability approach offer? What are its essential elements? As Nussbaum writes, the key question for an adequate informational basis is, "What is each person able to do and to be?":

> The approach takes *each person as an end*, asking not just about the total or average well-being but about the opportunities available to each person. It is *focused on choice or freedom*, holding that the crucial good societies should be promoting for their people is a set of opportunities, or substantial freedoms, which people then may or may not exercise in action: the choice is theirs. It thus commits itself to respect for people's power of self-definition. (Nussbaum 2011, 18)

The importance of each person as an end, with his and her choice or freedom, and the claim to be respected, has universal validity and holds for all people in all cultures and religions. It is noteworthy that the concentration on capabilities of persons does not imply "methodological individualism" which assumes that individuals with their thought, choice and action are detached from the society in which they exist. "The capability approach not only does not assume such detachment, its concern with people's ability to live the kind of lives they have reason to value brings in social influences both in terms of what they value (for example, 'taking part in the life of the community') and what influences operate on their values (for example, the relevance of public reasoning in individual assessment)" (Sen 2009, 244). In other words, it would be "a significant mistake" (Sen) to interpret the capability approach in an individualistic sense.

A further feature of the capability approach is a pluralist understanding of value:

> The approach is resolutely *pluralist about value*: it holds that the capability achievements that are central for people are different in quality, not just in quantity: that they cannot without distortion be reduced to a single numerical scale; and that a fundamental part of understanding and producing them is understanding the specific nature of each (Nussbaum 2011, 18-19).

To illustrate, it does not make sense to curtail to one single indicator among the following capabilities: being adequately nourished, escaping premature mortality, reading, calculating and writing, doing "decent work" (that includes many substantive elements), and having leisure time. It is noteworthy that the Stiglitz-Sen-Fitoussi Report, too, emphasizes a range of features in people's lives "that are important either intrinsically, as objective expressions of a good life, or instrumentally, to achieve valuable subjective states or other objective goals. Some of these features may be conceived as referring to particular functionings (*i.e.,* descriptions of people's doings – *e.g.* working, commuting – and beings – *e.g.* being healthy or educated) while others may be conceived as freedoms in particular domains (*e.g.* political voice and participation)" (Report 2009, 156).

Finally, Nussbaum emphasizes the value perspective of the capability approach:

> The approach is *concerned with entrenched social injustice and inequality*, especially capability failures that are the result of discrimination or marginalization. It ascribes an urgent *task to government and public policy* – namely, to improve the quality of life for all people, as defined by their capabilities (Nussbaum 2011, 19).

While the capability approach offers an adequate informational basis for interpersonal comparisons in general, it is particularly apt to shed light on poverty and inequalities and to guide public policies to address these issues. This does not require an all-encompassing theory and policy. But a focus on a limited set of issues – or what Sen calls a “partial ordering” – suffices (see Sen’s extensive discussion of his view of how to approach justice in Sen 2009).

These essential elements of the capability approach, outlined above, are shared by Sen and Nussbaum (and many other scholars). However, there are also differences between the two authors, which may be indicated briefly, but not pursued further in this article. Nussbaum calls her approach “Capabilities Approach,” pointing to the plurality and qualitative distinctness of the most important elements of people’s quality of life (see Nussbaum 2011, chapter 2 and 4; also Sen 2005, 157, 160). She explicitly grounds her theory of fundamental political entitlements in human dignity and employs a specific list of ten “central capabilities.” They constitute a minimal threshold level that a political order must at least secure to all citizens: life; bodily health; bodily integrity; senses, imagination, and thought; emotions; practical reason; affiliation; other species; play; and control over one’s environment, politically and materially. In line with Rawls’s political liberalism, her capability-based theory of justice refrains from offering a comprehensive assessment of the quality of life in a society. But it also comprehends the capabilities of nonhuman animals.

In contrast, Sen abstains from establishing a specific list of (basic) capabilities, leaving its specification to public reasoning (although he thinks some capabilities, for example, health and education, are particularly important). A main concern of his has been to identify capability as the most pertinent space of comparison for purposes of quality-of-life assessment, which can be the basis for a comprehensive quality-of-life assessment in and between nations and other groups (see Report 2009). Such a project, in turn, goes beyond the deliberately limited aims of Nussbaum’s political liberalism. Sen, however, develops a theory of justice in a very broad sense. “Its aim is to clarify how we can proceed to address questions of enhancing justice and removing injustice, rather than to offer resolutions of questions about the nature of perfect justice” (Sen 2009, ix). Moreover, Sen does not extent his theory to nonhuman animals’ capabilities.

Some foundational implications of Sen’s capability approach

In order to better understand the capability approach and its application to corporate ethics, it is helpful to explore some foundational implications of Sen’s approach. As economist and philosopher, Sen has never accepted the strict separation of both disciplines, but persistently aimed at relating ethics and economics in fruitful dialogue. This has led to a lucid critique of core neoclassical assumptions in economic theory and considerably enriched the paradigm of economics, which he calls an “ethics-related approach” as distinct from the “engineering approach” to economics (Sen 1987; also Enderle 2012b). The latter primarily focuses on logistical issues in a “value-free” manner: what means should one choose in order to achieve as efficiently as possible, under very simple behavioral assumptions, goals that are given from elsewhere? The ethics-related approach, however, going back to Aristotle, involves a broader understanding of economics and other business disciplines. It also comprehends problems of human motivation and the judgment of social achievements that cannot be disconnected from the ethical question of the good and just: how should one live and how should we foster a good and just society?

For Hilary Putnam, Sen’s approach demonstrates successfully how the false dichotomy of “facts” and “values” can be overcome. There are no “value-free facts” in juxtaposition to (subjective) value judgments because both facts and values are subject to value judgments, the first to epistemic value judgments and the second to ethical value judgments (Putnam 2002, 46-78). This means that the “engineering approach” in general and the neoclassical theory in particular are not “value-free.” For example, the choice of a particular informational basis for interpersonal comparisons (say utility or income) depends on epistemic value judgments, which, in turn, are influenced by ethical value judgments. Other examples are the notions of rationality and economic behavior, the role of self-interest and profit maximization.

Sen criticizes the economic model of individuals acting to maximize their self-interest heedless of relationships and emotions (see also Pressman et al. 2000). First, it is a bad description of how people actually behave. Second, it does not respect how individuals may value what to do and to be. Third, it disqualifies all other-regarding motivations as irrational. Fourth, it fails to motivate for the production of public goods (as distinct from private goods). Fifth, it excludes respect for and fair dealing with disabled people. Finally, as a core assumption in social contract theories based on cooperation for "mutual advantages," it limits the people included to those who can make contributions and excludes those in need.

With regard to judging social achievement (i.e., the goodness and justice of societies), Sen's longstanding concern for poverty and inequalities has given him a sharp heuristic perspective to examine prevailing philosophical and economic approaches. Neither purely subjective (e.g., utility) nor merely objective criteria (e.g., income) nor any single numerical scale are adequate to capture the plight of the poor in particular and the achievement (or non-achievement) of the whole society in general. The capability approach offers a way to avoid these impasses. It places the persons' lives at the center: what matters is what they do and they are (functionings) and their freedoms to choose among these functionings (capabilities). Thus "human development" is defined as "a process of expanding the real freedoms that people enjoy" (Sen 1999, 3). The expression "the real freedoms that people enjoy" epitomizes the concepts of functioning and capability. Clearly, it is not about any freedoms, but about the freedoms (a) that people value, (b) that they have reason to value, and (c) that stand the test of public scrutiny.

Three implications are to be mentioned briefly. Poverty as capability deprivation is measurable and requires value judgments, which need to be enforced by public policies. Sensitivity for distributions of functionings and capabilities can be enhanced by statistical documentation and opened up to public reasoning. In its reach, the capability approach is global across cultures and religions and comprehends all human beings.

Limitations of the capability approach

As Sen readily admits, the capability approach also has its limitations. For instance, it cannot pay adequate attention to fairness and equity involved in procedures (i.e., the process aspect of freedom) that have relevance to the idea of justice (Sen 2009, 295-298; this point, though, is criticized by Nussbaum 2011, 67). Moreover, capabilities are not, like human rights, moral claims that involve duties (Sen 2005 and 2009, 370-376).

Another limitation – and a critique to some extent – has to do with the notion of wealth. Sen agrees with Aristotle that "wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else" (Sen 1999, 14; also Sen 2009, 253). Wealth is not something we value for its own sake. It is only an "admirable general-purpose means for having more freedom to lead the kind of lives we have reason to value" (Sen 1999, 14).

This notion of wealth seems to be understood in a narrow, material sense, reflecting a certain underestimation of the material world and the "bodiliness" of the human person. According to Jacob Viner, "Aristotle … insisted that wealth was essential for nobility, but it must be inherited wealth. Wealth was also an essential need of the state, but it should be obtained by piracy or brigandage, and by war for the conquest of slaves, and should be maintained by slave works" (Viner 1991, 39). If the material world is considered inferior and merely instrumental, wealth cannot but share these qualities and is likely to be undervalued. If it has no intrinsic value, it is not a place where deeper meaning can be searched and found.

It is therefore suggested to enrich the notion of wealth (Enderle 2009, 2010 and 2011). This notion is consistent with the ethics-related approach, integrates the capability approach, and adds a more specific purpose of business and economics within the overall purpose of "expanding the freedoms that people enjoy." Thus the purpose of business and economics is conceived as "wealth creation" in a comprehensive sense that goes beyond profit maximization and adding value. Wealth is more than financial capital by including physical (i.e., natural and produced), human (in terms of health and education), and "social" capital (as trust relations in Robert Putnam's sense). Wealth encompasses not only private but also public wealth, both influencing each other in multiple ways. Because the process of wealth production inescapably involves distributive patterns, the productive and the distributive dimensions of wealth creation, strictly speaking, cannot be separated. Wealth is not merely material, but also has a spiritual side, which ennobles its creation to a truly noble human activity. By placing wealth creation in the time horizon of sustainability enriched by Sen's capability approach, one overcomes an exclusively short-term view and integrates an intergenerational justice perspective. The emphasis on creating as distinct from possessing and acquiring highlights the need for innovation in both private and public wealth creation and requires "mixed" motivations (that is self- *and* other-regarding) to overcome the exclusive and thus insufficient motivations of either self-interest or collective interests.

Obviously, this rich concept of wealth creation is influenced by Sen's work in several respects: his capability approach incorporated in human capital and the sustainability perspective; the important role of public goods; the rejection of self-interest as the only rational motivation and the indispensability of other-regarding motivations; and the concern for distribution and poverty as capability deprivation. Moreover, the Stiglitz-Sen-Fitoussi Report discusses different types of capital, namely physical, natural, human, and social capital, and emphasizes the crucial role of wealth as stock for assessing the standard of living over time.

Application of the Capability Approach to Corporate Ethics

As discussed in a previous section, the capability approach offers an informational basis for public policy, which is more adequate than utility-based and resource-based approaches. It is decidedly people-centered and provides theoretically sound and specific guidance for governments and international agencies such as the World Bank. In principle, it can be applied to any decision making situation, be it of an individual, an organization, or in a systemic context (see three-level conception of business ethics in Enderle 2003).

In the following, the focus is on the ethics of business organizations: what guidance can the capability approach provide to corporate ethics? So far this question rarely has been addressed, and also Sen has ventured on this complicated field only on a few occasions (e.g., Sen 1993 and 1999a). Therefore, what follows is an attempt to explore some important features.

When addressing issues of corporate ethics, it is important to keep in mind the enormous variety of business organizations operating in multiple industries and hugely diverse cultures and countries. In addition, there are many different definitions of the purpose of business and business organizations such as making money, maximizing profit, surviving competition, providing goods and services, and improving society. However, it does not lie within the scope of this article to discuss this diversity of organizational forms and motivational views. Suffice it to state three basic assumptions for our exploration:

(1) Business organizations have some space of freedom to set their own goals and implement their strategies, while constrained by laws and regulations, market forces, and social and cultural factors. Thereby, the extent of responsibility is a function of the extent of freedom: the bigger their spaces of freedom, the bigger their responsibilities.

(2) Large, formal organizations such as corporations are understood as "moral actors": as collective entities, they act with intention (or at least exhibit intentional behavior) to achieve their goals and impact on society and nature, often to a large extent. Therefore, they can be held responsible for their acts in a moral sense. But they are not moral persons, because they are not ends in themselves and thus cannot claim the rights of human beings.

(3) The general purpose of the business organization is defined as the creation of wealth in a comprehensive sense as outlined in the previous section.

Sen's capability approach with its foundational implications contributes to a better understanding of corporate ethics in several respects.

Critique of "value-free" economics and other business disciplines

By refusing to address the questions of human motivations and social achievements in a serious manner, the engineering approach dismisses a large part of business reality as irrelevant for understanding business challenges and conduct. Business models based on mechanistic assumptions cannot account for human agency and may have grossly negative consequences. It is not possible to search for and find meaning in business itself. Ethical values and norms are extraneous to business and can only guide its culture, policy, and behavior, at best, from outside. Therefore, the ethics-related approach that explicitly incorporates human motivations and the judgment of social achievements opens economics and other business disciplines to fruitful communication with normative-ethical perspectives of corporate ethics.

The notion of rationality

If rationality is defined exclusively as instrumental rationality, rational business aims to instrumentalize everything: the relations with customers, the treatment of employees, and the dealing with other stakeholders. Human capabilities are not respected for their intrinsic values. Similarly, if self-interest and profit maximization are supposed to be the only rational motivations in a market economy, other-regarding motivations and goals (such as service to the company and the country) are disqualified as "irrational." Such a narrow understanding of rationality is highly questionable on theoretical grounds and fails to underpin the realities of long-term business success and the production of public goods. Thus the notion of rationality needs to be extended beyond instrumental rationality, self-interest and profit maximization, which is indispensable for sound corporate ethics. Of course, this does not mean that instrumental rationality, self-interest and the pursuit of profit are unimportant.

Sensitivity to poverty and distribution

Growing out of a deep concern for the plight of the poor and glaring injustices, the capability approach has provided a powerful perspective to better understand poverty and inequalities in and between societies. Moreover, it can guide businesses to evaluate and possibly improve their distributional structure and impact within and outside their organizations. For instance, businesses may critically assess the distribution of salaries and other benefits among employees or the distributional impact of corporate policy on different social groups. The capability approach is particularly apt at guiding companies in the global context because it provides universal standards on the one hand and great flexibility for cultural and national adjustments on the other hand. For an increasing number of global corporations, the alleviation of mass poverty has become a key corporate objective (see, for example, Werhane et al. 2010). Furthermore, businesses around the world are called upon to be part of the solution in addressing poverty and gross inequalities by joining the United Nations initiatives of the UN Millennium Development Goals (www.un.org/millenniumgoals) and the Global Compact (www.globalcompact.org). Needless to say, the capability approach can be of invaluable guidance.

The focus on functionings and capabilities

By taking each person as an end and focusing on real opportunities or substantial freedoms, the capability approach is decisively people-centered. People are not just "factors of production" or "human resources" as many theories in economics and management hold (for a critique of "human resource management," see, for instance, Dachler et al. 1989). Because functionings and capabilities are measurable, the approach can show whether the slogans such as "putting people first," "empowering the workforce," "employees are our most important assets" and "the customer is king" are supported by facts or are merely lip-service. [1]

In evaluating the business organization's performance in terms of functionings and capabilities, four considerations deserve particular attention. First, there are multiple and interdependent functionings and capabilities. The functioning of working in a company may generate the capabilities of connecting with other people and being well respected in the community. Moreover, it can create the capability to be loyal to the company's mission and the functioning of being promoted. Or take the example of micro-lending at the Grameen bank: micro-loans improve the capability of (mostly) women to be productive. This increases their functioning of earning a higher household income. It also expands the capabilities of the household members to be better nourished and the children's capabilities to enjoy basic education instead of working in factories. The women's capability to be self-confident increases and leads to their capability to participate in political debates and elections, which may result in the functioning of being elected.

Second, Sen refrains from establishing a special list of capabilities and accords an important role to public reasoning in order to identify context-related relevant capabilities. As the stakeholder theory stipulates for corporate ethics, the company should engage in dialogue with its stakeholders. In such a way relevant capabilities may be determined for employees in terms of health and training, for consumers in terms of safe products, for investors in terms of transparency, and for the community in terms of keeping jobs. As public reasoning is crucial for setting relevant capabilities in societies at large, so is the stakeholder dialogue crucial for fixing them in business relations.

Third, Sen and Nussbaum both see a close link between capabilities and human rights (Sen 2005 and 2009, 355-387; Nussbaum 2011, 62-68). The promotion of human development in terms of capabilities and the fulfillment of human rights share a common motivation. The combination of the two perspectives also contributes something that neither can provide alone. The human rights approach links the human development approach to the idea that others have duties to facilitate and enhance human development (human rights as entitlements to capabilities); and human development helps to augment the reach of the human rights approach (capabilities as potential contents of human rights).

Moreover, the United Nations Framework for Business and Human Rights, developed under the leadership of John Ruggie since 2005, incorporates human rights into corporate responsibility and provides guiding principles for the implementation of the Framework (UN 2011). Although the Framework does not mention the capability approach, it prominently refers to “fundamental freedoms” (General Principles [a]). It covers all human rights, civil, political, economic, social and cultural rights, including the right to development – in total 29 rights (UN 2008). These rights can easily be translated into capabilities with the claim of duties to people and institutions.

The UN-Framework is a groundbreaking and very helpful contribution to the clarification of corporate responsibility (or corporate ethics) with regard to human rights (see Enderle 2012a). This responsibility includes the following components: (1) Transnational corporations and other business enterprises have to “respect” all human rights worldwide. This means, they must not cause directly, or be involved as accomplices directly or indirectly in, human rights violations. (2) In order to perceive and fulfill these responsibilities, the companies have to exercise “due diligence” (that is, to be committed) to examine, on a regular basis, their corporate strategies and activities with regard to all potential and actual (causal) impact on human rights and to make sure that all human rights are “respected.” (3) Therefore, companies are not responsible for all types of human rights violations, but “only” for “respecting” them, though in their entirety.

Based on the UN-Framework, a set of capabilities can be determined that defines the moral minimum corporations have to “respect.” Beyond this minimal set, the capability approach can help identify other obligations and even ideals, depending on the particular nature, mission, and environment of the business organization. In other words, the identification of capabilities as guidance for corporate ethics draws on both the norms of human rights and the principle of stakeholder dialogue.

Fourth, in the last few years several well thought-out metrics for economic, social, and environmental performance have been developed, in particular: the sustainability performance indicators for business and other organizations by the Global Reporting Initiative (its fourth generation in the making; www.globalreporting.org); the ISO 26000 – Guidance on CSR (or corporate social responsibility) for any type of organization by the International Organization for Standardization (promulgated in 2010; www.iso.org/iso/social_responsibility); and, regarding entire societies, the Report on the Measurement of Economic Performance and Social Progress mentioned earlier (Report 2009). These metrics cover a fairly comprehensive range of issues through which business organizations may affect people. Hence the capability approach can strengthen the focus on people rather than on things and on the quality of life rather than on simple indicators of material well-being. The Stiglitz-Sen-Fitoussi Report adopts this focus and deals with this challenge from a broad, societal perspective. It is suggested that GRI sustainability reporting and ISO 26000 may also benefit from the capability approach in their organizational perspectives. In addition, the various indicators can serve as heuristic devices in the stakeholder dialogue to identify the relevant capabilities in the specific contexts.

Concluding Remarks

As stated in the introduction, there is a serious disorientation among those attempting to guide the economy and our societies. They are "like pilots trying to steering a course without a reliable compass." When this happens, the blind end up falling into a pit, as Matthew warns in the New Testament. Responding to this strong statement, the article attempts to provide solid guidance with the help of the capability approach. As it has been very fruitful for public policy, it can also enlighten and strengthen business and economic ethics in general and corporate ethics in particular. By focusing on real opportunities (functionings) and substantial freedoms (capabilities) the people have reason to value, the shortcomings of utility-based and resource-based approaches to interpersonal comparisons can be overcome and the people's power of self-definition can be respected. The foundational implications of the capability approach enlarge the paradigm of economics and other business disciplines, enrich the notion of rationality and sensitize decision makers for poverty and inequalities. Based on the UN-Framework for Business and Human Rights, a minimal normative set of capabilities for corporate ethics can be determined. Beyond this minimum, the metrics of the GRI sustainability performance indicators and the ISO 26000 – Guidance on CSR provide heuristic devices for identifying, through stakeholder dialogue, context-relevant functionings and capabilities. For the question of the purpose of business and ennobling business activity, it is crucial to overcome the merely instrumental understanding of business by also placing intrinsic value in business itself as a human activity. This can be achieved by defining the purpose of business as wealth creation in a comprehensive sense. It is an innovative, interrelated process of production and distribution, aiming at the creation of not only financial, but also physical, human, and social capital.

Note

(1) While this article focuses on the capabilities of people, further research may investigate the capabilities of business organizations (such as managerial, administrative, technological, and financial capabilities) and how they can, ethically should, and actually do impact on the capabilities of people by expanding, not affecting, or reducing the people's freedoms. These relations could be captured with a "research matrix" with the rows of corporate capabilities (what they can, should and actually do) and the columns of people's capabilities (being enlarged, not affected, and reduced).

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