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# STAKEHOLDER IS THE THEORY OF GOOD MANAGEMENT (*EUPRAXIA*)

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**Abstract:** Ed Freeman's "integrative revolution" was launched in the 2007 EEUU national meeting of the Academy of Management. He proposed to start by studying how real persons are and settled three points: (1) the integration thesis; (2) the responsibility principle; and (3) the open question argument. In this article I will center my study through the Aristotelian approach in the first person, the acting person, and I will develop the following thesis. (1) *The integration thesis*. We, first all, are *zoon politikon*, i.e., we are not autonomous entities, and *then* social. With this expression I indicate that the person's essential openness to her fellow people by means of society and culture. Thus every individual action is social and has a cultural significance. (2) *The responsibility principle*. In every society we have different possibilities of action, and ethics in its Aristotelian expression is about what life is worth living (*eudaimonia*). (3) *The open question argument*. As In ancient Greek to live the good life was only possible in big cities nowadays the question is if we want to live a proper life (*eudaimonia*) we have to ask ourselves what is the good firm to work with (*eupraxia*)

## INTRODUCTION

Bradley R. Agle and Ronald K. Mitchell (2008) in their introduction to the state of stakeholder theory identify three different strands in recent and future work: (1) works concerning the stakeholder vs. stockholder debate, (2) works on the instrumental development of stakeholder approaches, and (3) works that generate new questions in stakeholder theory research. This article can be included in category (3). Within the different lines of theoretical development I consider the most promising the one exposed by Ed Freeman's "the integration revolution". And the reason is quiet simple. In mi opinion what we need is as Freeman says. "Some simple and very practical ideas" (Agle *et al.*, 2008, p. 163) and give up the unfinished debate between what's normative, what's descriptive and what's instrumental.

I am an economist and I do think that our aim as economists must be the resolution of real problems, without imposing any method *a priori*. The current crisis, with its constant corporate and financial scandals, is having a very dangerous effect. It is calling into question the role of the market economy and the importance of the firm as a social institution. As S: Ghoshal says: "Of far greater concern is the general delegitimization of companies as institutions and of management as a profession" (2005, p. 76). Is it not more important to resolve the current crisis than to spend our time resolving academically prestigious mathematical problems? As Solomon says: "by ignoring such 'intangible' features of business life as company moral and coordination in favor of the measurable quantities listed in the financial pages, we are destroying the corporation as community and, consequently, as a fully functional human institution" (Solomon, 1992, p. 151).

The structure of the article is as follows. In section (2) I will present reasons to adopt the Aristotelian approach to develop Freeman's "integration revolution". In section (3) I tackle "the integration thesis". The basic idea is that we, humans, first all, are *zoon politikon*, i.e., we are not autonomous entities, and *then* social. With this expression we indicate the person's essential openness to her fellow people by means of society and culture. Thus every individual action is social and has a cultural significance. In section (3) I will deal the responsibility principle. In every society we have different possibilities of action and ethics in its Aristotelian expression is about what life is worth living (*eudaimonia*). In section (4) the theme will be "the open question argument". As In ancient Greek to live the good life was only possible in big cities nowadays if we want is to live a proper life (*eudaimonia*) the question is what is the good firm to work with (*eupraxia*). And I will finish with some concluding remarks in section (5).

## 2. THE STARTING POINT: HUMAN ACTION

The 2007 national meeting of the Academy of Management on the future of stakeholder theorizing in business crystallized in the dialogue on the current and future state of stakeholder perspectives published in *Business Ethics Quarterly* (2008). In that dialogue E. Freeman presented his “integrative revolution” given by finished the so-called “Friedman-Freeman” debate. Such an “integrative revolution” was based in four points: (1) abandon the separation thesis. Adopt (2) the integration thesis; (3) the responsibility principle; and (4) the open question argument.

The starting point is the basic idea that is not useful to separate questions of business and questions of ethics. And Freeman says: “it does not make much any sense to talk about business or ethics without talking about human beings” (Agle *et al*, 2008, p. 163). So the ethical viewpoint that I follow in this paper is that of the acting person. Unlike modern ethics, centered on the observer’s perspective, i.e., that of a third person who reasons about minimal norms to guarantee the stability of society, in this paper I follow classical ethics, centered on the acting person; asking questions about what type of life is worth living (*eudaimonia*) in which society (*eupraxia*). It is important to remark from the beginning that my objective is practical. Hence I am not going to deal the debate about the necessity for a “normative foundational debate” for stakeholder theory.

My starting point is to recognize the fact that persons have needs to satisfy. That is to say, to speak of economic reality is to speak of needs. As Aristotle says: “the end aimed at is not knowledge but action” (EN

9095a6).<sup>1</sup> We need to procure food, shelter, a mate, etc. In our society we are accustomed to providing for our needs through market exchange. We are accustomed to providing for our needs through business relationships; we work for a wage that allows us to buy what we want. So if we abandon the separation thesis and we follow the “integrative revolution” three issues arise:

1) – *The integration thesis*. The individual does not act alone. As Solomon said: “The Aristotelian approach begins with the idea that we are, first of all, members of organized groups... we are not, as our favorite folklore would have it, first of all *individuals* – that is, autonomous, self-sustaining, self-defining creatures-” (Solomon 1992, p. 146). It is the co-existence and common participation in determined values and beliefs, where the means and ends, which constitute individual action, are configured. It is entirely suitable therefore to define the human being as the Aristotelian *zoon politikon*. With this expression we indicate the person’s essential openness to her fellow people by means of society and culture. Thus every individual action is social and has a cultural significance. This is the integration thesis that I will address in section (2).

2) - *The responsibility principle*. As Aristotle points out: ‘But, being a man, one will also need external prosperity; for our nature is not self-sufficient for the purpose of contemplation, but our body also must be healthy and must have food and other attention’ (NE, X, 1178b34-36). We may say, therefore, that the person is linked to her needs, but the form of this link is not merely bestial. Nothing human can be fully explained with reference only to the nature of living beings and their physical conditions. As Martin Buber rightly says, not even the human’s hunger is the hunger of an animal. Therefore, the goods appear in a universe in which they are the fruit of a construction, the result of an activity, in the center of the personality. Here applies the Aristotelian ethics as a system of norms, goods and virtues that I will address in section (3)

(3)- *The open question argument*.

Ethics in the classical Aristotelian meaning of norms, goods and virtues (*areté*) is possible in a reality, which is constitutionally ethical because the person to justify the creation of some possibilities and the blocking of others. What the person has to justify to herself and what is going to definitely distinguish her morality is the general project of her life. So in section (4) I will tackle the implications launched by the open question argument.

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<sup>1</sup> I quote Aristotle in the classical style, i. e., paragraph and lines of the text.

## 2. THE INTEGRATION THESIS: THE INSTITUTIONAL AND CULTURAL FRAMEWORK OF INDIVIDUAL ACTION.

My study of the firm as a social institution is circumscribed in a very particular sphere. I have limited myself strictly and methodologically to describing what things patently are, i.e. how they manifest themselves in the sphere of the primary radical reality that is our life. If the person acts in a socio-cultural context, I want an overall view of the intimate links between person, society and culture. I reinterpret the classical Aristotelian *zoon politikon* concept saying, that the person is a *with-being*, implying that the essence of the person is her openness, i.e., is being-with. That is to say, to form herself as she is, other people and culture are essential.

In more direct terms R. Solomon states the same idea: "Princeton anthropologist Clifford Geertz once wrote that a human being all alone in nature would not be a noble, autonomous being but a pathetic, quivering creature with no identity and few defenses or means of support" (Solomon 1992, p. 147). Therefore, the following question should be asked: What is the fundamental and constitutive role of social institutions for personal action? What is the role of social norms in this system?

As D. North (1991) says: "Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (constitutions, laws, property rights)" (1991, p. 97). We can consider the attitudes, knowledge, values, language, technology, food and the educational norms as cultural elements. What is the common element in all of these? We could consider that the common characteristic is the transformation of nature. This approach seems to be too limited, since: what is the transformation of the means that is implied in language and dress? Of course, there are cultural elements whose declared objective is the transformation of the means as in the case of technology. But it is not the radical elements that unify culture. The search for what qualifies diverse vital forms, like culture, leads us to wonder about what fundamental things give unity to a life style. So any institution realizes three functions: (1) Satisfy needs. (2) Coordinate the behavior of individuals. (3) Provide norms of conduct and values shared by individuals.

In this approach, institutions constitute an integrated system where the expectations of the roles are rule-governed. This rule must be interpreted as a reciprocal stabilization of conduct. With this conception of expectations, one can explain the origin of the division of labor, which is the basis of economic progress. The division of labor is an *expectation of the role*. It is a particular case of great importance in the process of institutionalization. The division of labor is a role insofar as it enables people to specialize in a task, and to expect the exchange of the goods produced by each person. This possibility of exchange is what the market economy is based on; this typification of the expectation in the exchange is based on the fact that the division of labor has become rule-governed, it has become institutionalized. In this view I can understand perfectly what Moran & Ghoshal say about firms: "Each firm creates a unique subsidiary context, consisting of its own unique mix of incentives that encourages the assimilation, sharing, and combination of resources" (1999, p. 407).

This rule-governed dimension of social institutions is of maximum importance. The unity of meaning of the institutions enables them to be dynamic. The institution has not only made it possible to achieve the ends desired in the past, but it has to make it possible, in each present action, to achieve the ends that each person determines. As North points out: "They [institutions] evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical performance of economics can only be understood as a part of a sequential story" (1991, p. 97). This process of competition has no negative connotations because the social interrelations and the market exchanges tend to coordinate the expectations, provided that the person complies with the moral norms. Using the expression used in game theory, I can say that the interrelations and the market exchanges are *positive sum*. The expansion of the possibilities of action, of disposing of greater means is the consequence of the fact that competition is a *positive sum* game. As Ghoshal, Bartlett and Moran (1999) say what we need is: "a new corporate philosophy that explicitly sees companies as value-creating institutions of society" (1999, p. 19).

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The driving force of the market process based in firms is how entrepreneurs create value, generating new possibilities of action for society. In this view is how I interpret the following Freeman's words: "stakeholder theory, in my view, is not about markets and how they work (at least first and foremost not about that). It's not a theory of the firm. Rather it is a very simple idea about how people create value for each other. It's a theory about what good management is" (Agle *et al.*, 2008, p. 166). In my opinion stakeholder theory is a theory of the market, but not the neoclassical one based in maximizing given resources. The theory of good management is based in social process of value creating in which the driving force of the market is entrepreneurship. As Ghoshal, Bartlett and Moran (1999) say: "corporations, not abstract economic forces or governments, create and distribute most of an economy's wealth, innovate, trade and raise living standards" (1999, p. 9).

### 3. THE RESPONSIBILITY PRINCIPLE: THE INTEGRATING FRAMEWORK OF ETHICS

The responsibility principle is a quite simple fact about our lives: we are actors of our lives. As Freeman says: "if ethics has a meaning whatsoever, if it 'gets off the ground' and is meaningful to us as human beings, it will be because we need to justify our lives to ourselves and to others" (Agle *et al.*, 2008, p. 164). Nowadays the idea of responsibility can be a messy concept. There are quite different interpretations about what we understand about it. But independently of what we understand about responsibility I agree with Ed Freeman when he says: "Now, I actually believe that most people, most of the time, want to take responsibility, want to take responsibility for the results of their actions on others" (Agle *et al.*, p. 164).

To clarify the responsibility principle let's consider the exercise of the "experience machine" proposed by Robert Nozick (1974). Suppose you could be plugged into an "experience machine" which by stimulating your brain while you lay floating in a tank, would afford you all the experiences you choose, with all the variety you could want. But you must plug in for a life time or not at all. No more wanderings about moral beliefs, we are just in the nirvana. *The question is: would you plug in?* Perhaps we realize that pleasure is not the only point of human existence. That, the life of pleasure cannot really count as a life of fulfillment. As Nozick points out are two important problems to deal with:

(1) - *Activity has its own point.* We want to do certain things and not just have the experience of doing them. We are recovering the first person view, the view of the acting person. Aristotle gives heavy emphasis to the fact that the life of *eudaimonia* is a lifetime of activity: "it is a true and reasoned state of capacity to act with regard to the things that are good or bad for man. For while making has an end other than itself, action cannot; for good action itself is its end" (EN, 1140b4-6).

(2) - *Maintenance of one's identity is a good.* As Nozick says:

A second reason for not plugging in is that we want to be a certain way, to be a certain sort of person...There is no answer to the question of what a person is like who has been long been in the tank. Is he courageous, kind, intelligent, witty, loving? It's not merely that it's difficult to tell; there is no way he is. Plugging into the machine is a kind of suicide.(Nozick, 1974, p 43).

Nozick is pointing out an important aspect of human life. We want to be of a certain sort. We are not only concerned with how our time is filled, but also with what we are. As Aristotle said: "no-one chooses to possess the whole world if he has first to become some one else" (EN, 1166a 19-22). Possibilities for action do not arise from a substance for acting on another reality. Possibilities are conditioned by the resources that the person has. That is to say, possibilities are not actual properties of humans. Possibilities are not just given to us, naturally. As Aristotle said: "we are neither called good or bad, nor praised or blamed, for the simple capacity of feeling the passions; again, we have the faculties by nature, but we are not made good or bad by nature" (Aristotle, EN, 1106a).

As Freeman says: "The integration thesis implies integrating business and ethics, around the idea of what human being is and can be" (Agle *et al.*, 2008, p. 164.). Ethics in the classical Aristotelian meaning of norms, goods and virtues (*areté*) is possible in a reality, which is constitutionally ethical because the

person has to justify the creation of some possibilities and the blocking of others. What she truly has to justify to herself and what is going to definitely distinguish her morality is the general project of her life. The person has to justify the creation of some possibilities and the blocking of others, and she has to justify the preferred possibility, and as well she has to justify, above all, the general attitude in the face of distinct systems of possibilities, in so far as this attitude conditions the moral decision of her life: what is going to happen to her and what she herself wants. As J. Finnis point out: "The possibilities of activity, of shaping and maintaining one's identity, and of knowing and communicating with reality and real persons – are more than bare 'factual' possibilities. We understand them instead as the sort of evaluated possibility that we call opportunities." (Finnis, 1992, p. 41).

#### 4. THE OPEN QUESTION ARGUMENT

Freeman states the open question argument in the following three questions:

- (1) *For whom is value created and destroyed?*
- (2) *Whose rights were enabled or not?*
- (3) *What kind of person will I be if I make this decision this particular way?*

The separation thesis rests on the presupposition that reason can make assertions only about "facts" and is unable in itself to move us to action. What one does, according to this thesis, depends solely on one's feelings or passions, while reason is confined to showing feelings their object and, by apprehending cause-effect relationships, showing the passions the means for their satisfaction.

The separation thesis contains a portion of truth. Between "fact" and "value" there is an evident difference. But the great success of Newtonian mechanics gave a unitary view of the world. So it was, and still is, legitimate to seek to apply the new scientific method in all spheres of being. Thus human being could be expected to be reduced to human "facts" liable to be experienced: passions, interests, desires. Today cases are still made for and against the positivist aspiration of considering that the sole legitimate scientific knowledge of being lies in that provided by the experimental sciences. As Freeman says: "much of the theory that we teach in business schools is based on partial theories of human beings which are often derived from the separation fallacy (such as agency theory). They are not theories of whole, fully integrated human beings, with names, faces, families, and pasts, i. e., theories about actual business people" (Agle *et al.*, 2008, p. 163).

We are going to consider at the light of the open question argument the following entrepreneurial practices.

- (1) Milton Friedman, Nobel laureate for Economics, says:

The social responsibility of business is to increase its profits. Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. (Friedman, 1970)

I may share Friedman's idea. The essential norm for business is to earn benefits, but the following questions arise. How do we increase profits? What is the essence of the productive process? For example, the celebrated investor George Soros justifies his speculation against sterling in 1992 as follows:

As an anonymous participant in financial markets, I never had to weigh the social consequences of my actions. I was aware that in some circumstances the consequences might be harmful but I felt justified in ignoring them on the grounds that I was playing by the rules... In deciding which stocks or currencies to buy or sell, I was guided by only one consideration: to maximize my profit by weighing the risks against the rewards ... if I had tried to take the social consequences into account, it would have thrown off my risk/reward calculations and my chances of succeeding would have been less ... Britain would have devalued anyway. If I were not single-minded in the pursuit of profit, it would affect only my own results.

(Soros, 1999, p. 228)

(2) Let's consider the case of Enron. In its April 2001 issue, *Fortune* magazine called Enron, then seventh-largest company in the United States, the "most innovative" company in America. And that was done for six consecutive years since the mid-1990s. Its financial statement in 2000 reported a record-setting net income of \$ 1.3 billion, with recurring earnings per share up by 25 %, and a total return to shareholders of nearly 89%. Even as late as 2001, Enron's board of directors was named the third best board in the US by *Chief Executive* magazine (Sisón, 2003, p. 24). Six months later on December 2, 2001, Enron filed for bankruptcy, the outcome of what has been called the greatest accounting fraud of the 20th century.

In the light of the above examples, which can we consider good management? Clearly if the object of Aristotelian ethics is *eudaimonia* understood is the life that worth living or flourishing, the object of the open question argument is what sort of society we want to construct. As the classic Greeks said that to live the good life one must live in a great city I agree with Solomon (1992) when he says "to live a decent life choose the right company". In others words a decent life (*eudaimonia*) requires and fosters a right company (*eupraxia*). With this I don't want to suggest that market economy should be massively intervened by the State to encourage good practices. My intention is just to say that we need good theories to encourage good practices. We now know the consequences of applying bad theories to the business world as Ghosal 2005 masterfully explains. I do agree with Freeman that is time to finish the so-called "Friedman-Freeman" debate. Nobody would deny that earn money is necessary for economic survival. But as Freeman points out we need blood cells to live, but clearly the aim of ours lives is not to generate blood cells. So Friedman's statement is a partial picture of our social and economic process but the questions: (1) how to earn money? And (2) where society we want to construct? remain unanswered.

All the fundamental Friedman's work on micro theory of consumption, monetary policy and his defense of free market economy can be integrated in a more general and systematic framework. As E. Freeman says: "Better stakeholder theory focuses us on the multiplicity of ways that companies and entrepreneurs are out there creating value, making our lives better, and changing the world" (Agle *et al.*, 2008, p. 166)

Before I go on there is an important point to address: the difference between my approach and other modern virtue ethics approaches. Moore's theory (2002, 2005a, 2005b) based on MacIntyre's work (1985) is of great interest. Moore and I set out from the same point: the object of social institutions is to provide external goods. As MacIntyre says: "institutions are characteristically and necessarily concerned with ... external goods" (MacIntyre 1985: 194). But from this point our theorizing takes different paths.

In my study institutions do not provide only external goods. In achieving such goods institutions provide guidelines for individual behavior and social norms that are transmitted culturally. So in each of our actions liable to provide external goods we are forming our character. As Aristotle said: 'no-one chooses to possess the whole world if he has first to become someone else' (NE, 1166a 19-22). We want to be of a certain sort. We are not only concerned with how our time is filled, but also with what we are.

In any action there are external effects, *poiesis*, *facere*, and internal ones of *praxis*, *agere*. That is, external goods are achieved at institutional level in the sequence: institution (goods)-culture (norms) - *eudaimonia*-good practice (*eupraxia*). This sequence corresponds to the achievement of internal goods at individual level in the personal action-virtue sequence, where ethics is the system of goods, norms and virtues that makes personal action coherent.

Moore's work (2002) sets out from Macintyre's distinction between institution and practice. MacIntyre defines practice as:

Any coherent and complex form of socially established cooperative human activity through which good internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the

result that human powers to achieve excellence, and human conceptions of the ends and good involved, are systematically extended. (MacIntyre, 1985, p. 187).

In my account I reinterpret this distinction between institution and practice within the plural possibilities of personal action. MacIntyre's practice corresponds to Aristotelian *eupraxia*. Accordingly I consider not only that institutions provide external goods but that their dynamism points to *eupraxia*. In my approach there is no dichotomy between institutions based only on external goods and practice based only on virtue and the achievement of internal goods (Moore, 2002). MacIntyre's view, magnificently developed by Moore (2005a, 2005b), sets out from an assumption that I see as highly problematic: the tendency to greed in capitalist enterprises (Moore 2005a). If this assumption is accepted, institutions clearly do not themselves guarantee the development of MacIntyre's practice, and it becomes necessary for Moore (2005b) to develop the concept of corporate character to counter the institution-culture-values sequence with the practice-character-virtues sequence. Moore defines a virtuous corporate character:

Is the seat of the virtues necessary for a corporation to engage in practices with excellence, focusing on those internal goods thereby obtainable, while warding off threats from its own inordinate pursuit of external goods and from the corrupting power of other institutions with which engages (Moore 2005b, p. 661)

In this definition I clearly see a negative view of economic profit as something disorderly and corrupting for the individual. But Moore is right to introduce this concept because it is necessary in the development of the institution-practice dichotomy. This dichotomy in my approach is unnecessary, for the provision of external goods has no negative connotation, and so institutions pursue both external goods and internal ones.

The debate on the use of MacIntyre's work for business ethics ended in 1997 (Brewer, 1997; Dobson, 1997; Wicks 1997; 2009), with the recognition that the discussion of business ethics should be framed in terms of stakeholding language. The 2007 national meeting of the Academy of Management on the future of stakeholder theorizing in business crystallized in a dialogue on the current and future state of stakeholder perspectives published in *Business Ethics Quarterly* (2008). In that dialogue E. Freeman presented his integrative revolution ending the so-called "Friedman-Freeman" Debate. And Freeman said the following: "Stakeholder theory, in my view, is not about markets and how they work ...It's not a theory of the firm. Rather it is a very simple idea about how people create value for each other. It's a theory about what good management is" (Agle *et al.*, 2008, p. 166). Accordingly there is no need to introduce the concept of corporate character. We already have the Aristotelian concept of *eupraxia*, which we can reinterpret as good management in sympathy with Freeman.

An unjustified contempt for the market economy is a characteristic feature of MacIntyre's work (WICKS 2009). MacIntyre's anti-liberal view, criticized by S. Holmes (1993), demonstrates the contradictions of MacIntyre's criticism of modern political philosophy. A true political ethics cannot be only an ethics of virtues; it must also be an ethics of institutions (Ronheimer 1992). For despite all the reservations that one may have, this is the essence of modern political philosophy from Hobbes to Rawls, via Kant. In this connection MacIntyre's "anti-modernism" and his "return to Aristotle" are unilateral. We need to achieve a balance between an ethics of virtues and an ethics of institutions that supersedes moralizing fundamentalism confined to ends, and that deals also with the means leading to the institutional realization of those ends. Peace, freedom, human dignity and justice are the key themes of classical political liberalism. In my view it is problematic to set a value-related morality against a particular political stance. In my perspective of *praxis* it is not possible to separate ends and means. An end can only acquire form and become effective on the horizon of a particular means, so any political morality must take a view on specifically political questions relating to the institutional, legal and economic requirements that are necessary in each particular historical situation (B. Sutor, 1991).

## 6. CONCLUDING REMARKS.

I have developed my argument in three steps to develop "the integrative approach" to stakeholder theory. In section (2) I have presented the socio-cultural framework of individual action that shows the person in

her social and cultural dimensions. In section (3) the responsibility principle is interpreted from the Aristotelian ethics point of view, and section (4) presents the open question argument.

My point here is that if ethics and business are intrinsically linked they deserved a synthetic treatment, the “integrative approach”. In my opinion is a bad beginning considering the assumption of the corporation as an autonomous entity and *then* consider its social obligations. In such a case I agree with Freeman when he says: “if business is on one side and ethics is in the other, then we’ll have a gap” (Agle *et al.*, 2008, p. 164).

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