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Materialistic versus Non-materialistic Value-orientation in Management*

The Occupy Wall Street and other anti-globalization movement show a dramatic loss of confidence in mainstream business. Big businesses lost credibility and trust worldwide. The basic assumptions of business management became questionable.

1 The Materialistic Management Model

The dominant management model of today's business is based on a materialistic conception of man. Human beings are considered as body-mind encapsulated egos having only materialistic desires and motivation. This kind of creature is modeled as Homo Oeconomicus in economics and business.

Homo Oeconomicus represents an individual being which seeks to maximize his or her self-interest. He or she is interested only in material utility defined in the terms of money.

The Materialistic Management Model uses money-driven extrinsic motivation and measures success by the generated profit. The economic and financial crisis of 2008-2009 has deepened our understanding of the problems of mainstream businesses which base their activities on unlimited greed and the “enrich yourself” mentality.

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There are two distinct but interrelated problems with the underlying assumptions of the materialistic management model. One deals with profit as the sole measure of success of economic activities while the other deals with money as the main motivation of economic activities. (Zsolnai, L. 2011)

Profit as measure of success

Profit is inadequate as the sole measure of the success of economic activities. Profit provides an incomplete and not unbiased evaluation of economic activities. It reflects the values of the strongest stakeholders, favors preferences here and now, and presupposes the reducibility of all kind of values to monetary values.

The market as an evaluation mechanism has its inherent deficiencies. First of all, there are *stakeholders* that are simply *non-represented* in determining market values. Natural beings and future generations do not have any opportunity to vote on the marketplace. Secondly, the preferences of human individuals count rather unequally, that is, in proportion to their purchasing power; the interests of the poor and disadvantaged people are necessarily *underrepresented* in free market settings. Thirdly, the actual preferences of the market players are rather *self-centered* and *myopic*; that is, economic agents make their own decisions regarding short-term consequences only.

To use the generated profit as the sole criterion for judging the success of economic activities implies *strong commensurability* which means that there exists a common measure of different values based on the cardinal scale of measurement. Mainstream economics suggests that values external to the market mechanism should be calculated by using shadow prices and other market-based evaluation techniques. In this way externalities can be “internalized” and full cost pricing of activities can be developed.

But ecological economists demonstrated that the strong comparability of values is not held in economics. The value of natural assets cannot adequately be expressed in monetary terms. (McDaniel C. & Gowdy J. 2000) Similar arguments can be developed for important human and social values such as health and safety, ethics and aesthetics.

Profit is an indicator of the *financial viability* of economic projects but cannot be used as an exclusive criterion of the success of economic activities. To judge the overall value of economic activities we should use a number of non-financial value-criteria in addition to profit.

Money as motivation

Money is dangerous as the main motivation for economic activities. It decreases the intrinsic motivation of economic actors which leads to decreasing quality. Also, it cultivates self-centered value orientation which results in socially insensitive and ethically irresponsible behavior.

Bruno Frey's "crowding out" theory shows why profit motivation may be counter-productive. A monetary reward offered or expected tends to crowd out an agent's willingness to perform the task for its own sake (i.e. based on intrinsic motivation) if the agent's sense of recognition, fairness, or self-determination are thereby negatively affected. The *crowding-out effect* of pricing may also spill over into sectors where no pricing is applied ("spillover effect") if the persons affected find it costly to distinguish their motivations according to sectors. Motivation crowding-out and spillover narrow the scope for successfully applying monetary rewards. (Frey, B. 1997)

In his recent book „What Money Can't Buy" Harvard philosopher Michael Sandel argues that monetizing certain activities usually *degrades* their *moral standing* and *corrupts* them. (Sandel, M. 2012)

Personality psychologist *Gian-Vittorio Caprara* and his colleagues show empirically that cultivating greed leads to manipulation of others and oneself. They start with the observation that a division between thought and action takes place when people break the rules or get involved in dirty business. What is most surprising in rule violation and misconduct is that people are not bothered by their conscience, do not fear any sanction and do not feel obliged to make reparations. (Caprara, G-V. & Campana C 2006)

Stanford psychologist *Albert Bandura* discovered the *mechanisms of moral disengagement*, the psychosocial maneuvers by which moral self-sanctions become disengaged, giving free way to a variety of misbehaviors without carrying any moral concern. Self-sanctions can be disengaged by reconstructing the conduct, obscuring personal causal agency, misrepresenting or disregarding

the injurious consequences of one's actions, and vilifying the recipients of maltreatment by blaming and devaluating them. (Bandura, A. 1990)

Caprara and his team developed a scale to assess civic moral disengagement (CMD). Their empirical findings suggest that the more people are concerned with *self-enhancement goals*, the more they are inclined to resort to mechanisms that permit them to *disengage* from the duties and obligations of civic life and to justify transgressions when their self-interest is at stake. (Camprara, G-V. & Campana, C. 2006)

This result has an important consequence for the naive belief in the beneficial impact of the “Invisible Hand” of the market. If economic agents become self-concerned then it is likely that - by employing moral disengagement mechanisms - their self-exonerative maneuvers will do *harm to others*.

2 Materialistic versus Spiritual Value Orientation

American psychologist *Tim Kasser* states that *materialistic value orientation* reflects the priority that individuals give to goals such as money, possessions, image, and status. Confirming the concerns of many spiritual traditions, empirical research supports the idea that materialistic and spiritual value orientations are relatively incompatible aims in life. Psychological research shows that the more people focus on materialistic goals, the less they tend to care about spiritual goals. Further, while most spiritual traditions aim to reduce personal suffering and to encourage compassionate behaviors, numerous studies document that the more people prioritize materialistic goals, the *lower their personal well-being* and the more likely they are to engage in manipulative, competitive, and ecologically degrading behaviors. (Kasser, T. 2011)

Spirituality can be defined as people's multiform search for meaning that connects them with all living beings and to God or Ultimate Reality. (European SPES Forum 2012)

Spiritual value orientation has two interrelated but irreducible characteristics: *interconnectedness* and *transcendence* and. (Yin, E. 2009) Spirituality, in the simplest term, is the recognition of the

interconnectedness and the pursuit of transcendence. Therefore, it is value neutral and universal. However, spirituality does have profound value implications, because a spiritual person is the one who is genuinely aware of the interconnectedness of all living beings, and is therefore able to surpass egoistic boundary to experience deeper love and compassion toward others. Spirituality is indeed moral in nature, and it is a key component of ethical behavior. Yin suggests understanding spirituality as a person's recognition that the ultimate meaning and purpose in life is transcendence. It reflects a person's innate capability to transcend himself or herself to a higher level of consciousness where boundary-less existence can be genuinely experienced, by recognizing the interconnectedness of self and others and the universe. (Yin, E. 2009)

Copenhagen Business School scholar *Peter Pruzan* states that spiritual-based leadership is emerging as an inclusive, holistic and yet highly personal approach to leadership that integrates a leader's inner perspectives on identity, purpose, responsibility and success with his or her decisions and actions in the outer world of business. The emergence of spiritual-based leadership can also be seen as an overarching perspective on other approaches to leadership characterized by a focus on concepts such as "business ethics," "values-leadership," "corporate social responsibility" and "sustainability," but spiritually based leadership considers ethics, social responsibility and sustainability not as instruments to protect and promote classical business rationale but as fundamental goals in their own right.

While traditional managerial leadership aims at optimal economic performance subject to both self-imposed and societal constraints that mandate attention to the well-being of the organization's stakeholders, spiritual-based leadership essentially interchanges the means and the ends. The "why" of organizational existence is no longer economic growth but spiritual fulfillment of all those affected by the organization, where a major restriction is the requirement that the organization maintains and develops its economic capacity to serve its stakeholders. In other words, spirituality provides a framework for leadership that can serve as the very source of an organization's values, ethics and responsibility. (Pruzan, P. 2011)

3 Non-materialistic Management

The non-materialistic management model is based on a spiritual conception of man. Human beings are considered spiritual beings embodied in the physical world and having both materialistic and non-materialistic desires and motivations. Materialistic desires and outcomes are embedded in and evaluated against spiritual convictions and experiences.

Luk Bouckaert writes that the *Homo Spiritualis* is not characterized by having preferences and striving for maximum utility but by the awareness of being related to the other. This inter-existence of the self and the other cannot be reduced to a shared group interest or a collective welfare function. We are interconnected on a level of being, prior to our acting within and making the world. The spirit in each of us is the point of awareness where we feel ourselves related to all other beings and to the Being itself. This spiritual self-understanding is not a matter of abstract philosophical thinking but it is a feeling of universal love and compassion that gives our lives and actions an inner purpose and drive. It transforms our materialistic ego into a responsible and compassionate self. (Bouckaert, L. 2011a)

Bouckaert formulated priority statements expressing the primacy of the spiritual in business. (Bouckaert, L. 2011b)

(1) *The priority of basic needs over subjective preferences.* Preferences are individual and social constructions which express, intensify and transform basic needs, and in certain cases suppress and obstruct them. Basic needs, on the other hand, are the necessary preconditions for humane functioning in a historically and culturally determined community. One can translate basic needs into rights that one can claim on the basis of one's human dignity.

The classical objection to the basic needs approach is that there is no consensus about the content of basic needs. What people experience as a basic need, according to this argument, depends precisely on their individual preferences. This is partially true. One cannot detach basic needs from an individual's subjective aspirations, but that does not mean that basic needs should be reduced to those aspirations.

(2) *The priority of commitment over self-interest.* Experimental economics and economic psychology gives empirical support to the claim that social commitment has a moral priority over selfish behavior. Genuine commitment has its own logic. One who selflessly devotes one's life to

justice is aiming at something other than the pleasure of satisfying his/her own altruistic preference. He or she does it for the sake of justice itself, not (at least not primarily) as a means to an extrinsic end such as personal happiness or prestige. There is an essential difference between the instrumental function of a preference and the noninstrumental function of a commitment. While commitment is directed to bringing about an identity, a way of being, preference satisfaction aims at bringing about an advantage or a pleasure.

(3) *The priority of mutual trust over mutual advantage in the market.* A good-functioning market requires cooperation and mutual trust. The market instrumentalizes all values in the function of individual, subjective preferences. When everyone determines his values himself, a lack of moral cohesion can open the way to far-reaching opportunistic behavior, which is in the long term a threat to a good functioning of the market. Hence there is the growing awareness that moral self-regulation and “social capital” in the form of mutual trust are constitutive of a good-functioning market.

(4) *The priority of economic democracy over shareholder capitalism.* Economic democracy is an alternative to bourgeois capitalism and to Marxist collectivism. Stakeholder management and co-creative entrepreneurship are highly valued in today’s capitalism. Business ethics criticizes shareholder capitalism and promotes the stakeholder theory of the firm. The strong version of stakeholder theory empowers the stakeholders and makes them full partners of the firm. They get the rights and claims of partners and form a community of co-responsible persons. In principle, economic democracy is broader than workers' democracy, while it aims at a balanced participation of all stakeholders.

4 Examples of Non-materialistic Management

A prime example of non-materialistic management is the social business model advocated by Nobel prize winning *Mohamed Yunus*, the founder of *Grameen Bank* in Bangladesh.

Solidarity lending is a cornerstone of Grameen Bank. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. Repayment responsibility solely rests on the individual borrower, while the group and the centre oversee that everyone behaves in a responsible way and none gets into a repayment problem. There is no form of joint liability, i.e. group members are not obliged to pay on behalf of a defaulting member. However, in practice the group members often contribute the defaulted amount with an intention of collecting the money from the defaulted member at a later time. Such behavior is facilitated by Grameen's policy of not extending any further credit to a group in which a member defaults.

There is no written contract between Grameen Bank and its borrowers, the system works based on trust. To supplement the lending, Grameen Bank also requires the borrowing members to save very small amounts regularly in a number of funds like emergency fund, group fund etc. These savings help serve as an insurance against contingencies.

When the social and ethical elements are cut from the microcredit business model it fails tragically as recent examples in India show. In the Indian state of Andhra Pradesh, where microfinance has made the deepest inroads public authorities have held microlenders responsible for the suicides of 57 people. A pressing problem is over-indebtedness, fuelled by rapid growth in a sector with no formal credit bureaus. (The Economist 2010a)

In their study on microfinance *Abhijit Banerjee* and *Esther Duflo* conclude that when it works well, microfinance can be a win-win situation. “The poor can borrow money at rates that may look high, but are much lower than those offered by moneylenders; and banks can make a sustainable business in lending to the poor. All this rests as much on a social contract as on a legal contract. Microfinance institutions need to be more diligent in their lending and screen borrowers better — if too many borrowers can't repay their loans, the social obligation will start to fall apart.” (The Economist 2010b)

Another example of non-materialistic management is the *Triodos Bank* in the Netherlands which has branches in Belgium, Germany, United Kingdom and Spain. Triodos is a pioneer in ethical and sustainable banking. It finances projects which add cultural value and benefit both people and the environment. The name, Triodos – "tri hodos" – is translated from the Greek as "three-

way approach". Triodos only lends to businesses and charities judged to be of social or ecological benefit. This "positive screening" extends its policies beyond those of ethical banks which solely avoid investing in companies judged to be doing harm ("negative screening"). Triodos uses money deposited by hundreds of thousands savers and lends it to several thousands of organizations, such as fair trade initiatives, organic farms, cultural and arts initiatives, renewable energy projects, and social enterprises.

Triodos' mission is to

- Help create a society that protects and promotes the quality of life of all its members and that has human dignity at its core
- Enable individuals, organizations and businesses to use their money in ways that benefit people and the environment, and promote sustainable development
- Provide our customers with innovative financial products and high quality service

Triodos was founded as an anthroposophical initiative. The term "anthroposophy" refers to the ideas of the Austrian spiritual thinker *Rudolf Steiner* (1861-1925) whose interests included education, biodynamic agriculture, organic architecture, eurythmy (movement as art) and therapeutic medicine. Triodos Bank's statutes committed it to anthroposophical principles until 1999 when this formal link was dropped, and in recent years the bank under its current head Peter Blom has embarked on a policy of reaching out beyond Steiner adherents and of broadening its appeal to a wider humanistic framework. Nevertheless Triodos's origins are reflected in the fact that most of the Dutch directors come from the anthroposophy movement, and Triodos continues to be the banker for many Steiner-inspired projects.

In 2011 Triodos' total assets under management was EUR 6,786 million with EUR 17.3 million net profit. (Triodos Bank 2011) The critical factor of growth for Triodos is not getting new depositors but finding new promising projects which satisfy the ecological, social and financial criteria of the bank. Under the current conditions Triodos cannot grow faster without compromising its core values. However, unlimited growth is not a goal of a sustainable bank like Triodos.

4 Conclusion

The materialistic management model does not produce true well-being for people but actually undermines it. By advocating economic actions on the basis of money-making and justifying success by generating profit the materialistic management model encourages irresponsible behavior of economic actors, contributes to ecological destruction and disregards the interests of future generations. So the presupposed rational management model becomes highly irrational as it produces non-rational outcomes for society, nature and future generations.

Acknowledging the primacy of the spiritual the non-materialistic management model activates intrinsic motivation of the economic actors for serving the common good and suggests measuring success in a multidimensional way. In this model profit and growth are not final ends but only elements of a broader set of goals. Similarly, cost-benefit calculations are not the only means of managerial decisions but integrated into a more comprehensive scheme of wisdom-based management. (Bouckaert, L. and Zsolnai, L. (eds.) 2012) Spirituality and rationality are not antagonist in management but materialism and rationality are.

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