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Materialistic versus Non-materialistic Value-orientation in Management

Occupy Wall Street and other anti-globalization movements indicate a dramatic loss of confidence in mainstream business. Big businesses has lost credibility and trust worldwide. The basic assumptions of business management have become questionable.

1 The Materialistic Management Model

The dominant management model of modern business is based on a materialistic conception of man. Human beings are considered as body-mind encapsulated egos with 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 terms of money.

The Materialistic Management Model assumes money-driven extrinsic motivation and measures success according to profits generated. 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.

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

Profit as measure of success

Profit is inadequate for being used 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 in the here and now and presupposes that all kinds of values can be reduced to monetary value.

The market as a mechanism of evaluation has its inherent deficiencies. First of all, there are *stakeholders* that are simply *non-represented* in the determination of market values. Natural beings and future generations do not have the opportunity to vote on the marketplace. Secondly, the preferences of human individuals count rather unequally; that is, in proportion to their purchasing power. Accordingly, the interests of the poor and disadvantaged 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 only regarding short-term consequences.

To use the profit that can be generated as the sole criterion for judging the success of economic activities implies *strong commensurability* which means that there must exist a common measure of different values based on a cardinal scale of measurement. Mainstream economics suggests that values external to the market 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 undertaken.

However, ecological economists have demonstrated that the strong comparability of values is not possible 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 for 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

Considering money to be the main motivation for economic activities is dangerous. It decreases the intrinsic motivation of economic actors which leads to decreases in the quality of their output. Also, it cultivates a 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 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).

Social psychologist *Gian-Vittorio Caprara* and his colleagues show empirically that cultivating greed leads to the 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 consciences, 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 way to a variety of freely-undertaken misbehaviors carried out without moral concern. Self-sanction can be disengaged by reconstructing conduct, obscuring personal causal agency, misrepresenting or

disregarding the injurious consequences of one's actions or/and by vilifying the recipients of maltreatment by blaming and devaluing 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 finding has significant consequences 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 a *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. 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* (Yin, E. 2009). Spirituality is the recognition of the interconnectedness and

the pursuit of transcendence. Therefore, it is universal. Spirituality has profound value implications because a spiritual person is 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 a 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 about 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 which may incorporate other approaches to leadership that are characterized by a focus on concepts such as "business ethics," "values-leadership," "corporate social responsibility" and "sustainability". However, spiritually based leadership considers ethics, social responsibility and sustainability not as instruments to protect and promote the classical business rationale, but as fundamental goals in their own right.

While traditional managerial leadership aims to optimize economic performance subject to both self-imposed and societal constraints that mandate paying attention to the well-being of the organization's stakeholders, spiritual-based leadership essentially reverses the means and the ends. The "why" of organizational existence is no longer economic growth but the spiritual fulfillment of all those affected by the organization, although 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 who have both materialistic and non-materialistic desires and motivations. For them, 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 preferences for and striving after maximum utility but by the awareness of being related to others. 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 related to all other beings and to the Being itself. This spiritual self-understanding is not a matter of abstract philosophical thinking but 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 a humane existence 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 consider basic needs to be separate 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

promoting justice is aiming at something other than the pleasure of satisfying his/her own altruistic preferences. 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 well-functioning market requires cooperation and mutual trust. The market instrumentalizes all values in the function of individual, subjective preferences. When everyone determines their own values, a lack of moral cohesion can open the way to far-reaching opportunistic behavior, which is in the long term a threat to the 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 well-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 stakeholders and makes them full partners of the firm. They receive the rights and claims of partners and form a community of co-responsible persons. In principle, an economic democracy is broader than a workers' democracy, while it aims at fostering the 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 provide guarantees to obtain a loan for a 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 have repayment problems. There is no form of joint liability; i.e. group members are not obliged to pay on behalf of a member that defaults. However, in practice the group members often contribute to repaying debts with the intention of collecting the money from the responsible 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 that borrowing members regularly save very small amounts in a number of funds (like emergency funds, group funds, etc.). These savings help serve as insurance against contingencies.

When the social and ethical elements are severed 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 into 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 also 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 from the Greek and means

"three-way approach". Triodos only lends to businesses and charities judged to be of social or ecological benefit. This "positive screening" means that the scope of its policies extends beyond those employed by banks which solely avoid investing in companies judged to be doing harm ("negative screening"). Triodos uses money deposited by hundreds of thousands of 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 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 to broaden 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 amounted to EUR 6,786 million with EUR 17.3 million net profit. (Triodos Bank 2011) The critical growth factor for Triodos is not getting new depositors but finding promising new 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 the goal of a sustainable bank such as Triodos.

4 Conclusion

The materialistic management model does not produce true well-being for people but actually undermines it. By advocating economic action on the basis of money-making, and by justifying success in terms of profits made, the materialistic management model encourages the irresponsible behavior of economic actors, contributes to ecological destruction and disregards the interests of future generations. The presupposed 'rational management model' is in fact highly irrational if it produces non-rational outcomes for society, nature and future generations.

Acknowledging the primacy of the spiritual, the non-materialistic management model activates the intrinsic motivation of economic actors to serve the common good and promotes multidimensional ways of measuring success. According to 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 by which to make managerial decisions but are integrated into a more comprehensive scheme of wisdom-based management (Bouckaert, L. and Zsolnai, L. (eds.) 2012). Spirituality and rationality are not antagonists in good management, but materialism and rationality are.

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