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# 1

## The Fallacy of Materialistic Management

**Abstract:** *The dominant model of today's mainstream business is the materialistic management model, which uses money-driven, extrinsic motivation and measures success only in money terms. Profit is not appropriate as the sole measure of the success of economic activities, as it provides an incomplete and imperfect evaluation of economic activities. Money becomes problematic as the exclusive motivation for economic activities. It can crowd out the intrinsic motivation of economic actors and cultivates self-centered value orientation, which results in socially insensitive and ethically irresponsible behavior.*

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The basic assumptions underlying mainstream business management have become questionable. The dominant model upon which modern business is based involves a materialistic conception of man. Human beings are considered creatures with only materialistic desires, who act out of egoistic motivation alone. This materialistic and individualistic model is leading to decreases in the well being of people and their communities and resulting in large-scale ecological destruction.

American psychologist Tim Kasser states that materialistic values reflect the priority that individuals give to goals such as money, possessions, image, and status. Numerous empirical studies have documented the fact that the more people prioritize materialistic goals, the lower their personal well being, and the greater the likelihood they will engage in manipulative, competitive and ecologically degrading behaviors (2002, 2011).

## 1.1 Malfunctioning business

The main problem with modern business is that it employs self-centered perspectives and pursues the goal of self-enhancement. Mainstream business leaders act as if they and their organizations are separate from their larger environment and tend to pursue goals that are narrowly defined. Business organizations are disembedded from the environmental and social context in which they function and may consider the natural environment and humans as mere means to accomplish their own purposes and goals. This self-centered, self-enhancement orientation of modern business unavoidably leads to ecological destruction and human deprivation.

### Self-centered orientation

The perverse decisions of modern business organizations occur in such phenomena as decision under risk and the discounting of value over space and time. Prospect theory and the general theory of discounting can help us to describe these phenomena.

Consider the following decision problem:

- (1) Choose between making a sure gain “G” or making a gain of “xG” with  $1/x$  probability where  $x > 1$ .

Prospect theory tells us that the majority of decision makers will prefer the first alternative (a sure but smaller gain) against the second one (a greater but uncertain gain). Decision makers usually display risk aversion in choices involving sure gains. (Kahneman and Tversky 1979)

Now, observe at the situation in reverse:

- (2) Choose between making a sure loss “L” or making a loss of “yL” with  $1/y$  probability where  $y > 1$ .

Prospect theory indicates that the majority of decision makers will prefer the second alternative (a greater but uncertain loss) against the first one (a smaller but sure loss). Decision makers are usually risk seeking in choices involving sure losses. (Kahneman and Tversky 1979)

The next decision problem concerns a combination of situations (1) and (2):

- (3) Choose between making a sure gain “G” and a loss of “yL” with probability  $1/y$ , or making a sure loss “L” and a gain of “xG” with a probability of  $1/x$ .

Prospect theory tells us that the majority of decision makers will prefer the first pair of alternatives (a smaller but sure gain and a larger but uncertain loss) against the second pair of alternatives (a smaller but sure loss and a larger but uncertain gain). Decision makers are usually more sensitive to losses than to gains. (Kahneman and Tversky 1979)

Risky decisions made by business organizations often endanger the safety and integrity of the natural environment and human populations. So-called catastrophic risk is a closely related phenomenon. The probability of a catastrophe being caused by modern, large-scale forms of technology is usually low, but it is never zero, while the potential consequences may be horrifying: the destruction of ecosystems and enormous losses to society. Recent examples of this kind of ecological and human tragedy include Fukushima and the BP oil spill in the Gulf of Mexico.

Decision makers usually overvalue things that are in the here and now, compared to things further away in space and time. This phenomenon is called “discounting”. The main principles of discounting in space and time can be studied through examining the following decision problems:

- (4) Choose between making a gain “G” here and now, and making the same gain “G” further away, and later in time.

According to the general theory of discounting, the majority of decision makers will prefer the first alternative (a gain here and now) to the second (the same gain further away and later in time). The adage “a bird in the hand is worth two in the bush” encapsulates how people discount gains that are distant in space and time.

Now, consider the situation in reverse:

- (5) Choose between making a loss “L” here and now and making the same loss “L” further away and later.

According to the general theory of discounting, the majority of decision makers will prefer the second alternative (a loss further away and later) to the first (the same loss here and now). Individuals tend to put off negative things until tomorrow because they discount losses that are distant in space and time.

The next decision problem involves a combination of (4) and (5):

- (6) Choose between making a gain “G” in the here and now and a loss “L” further away and later, and making a loss “L” here and now and a gain “G” further away in space and later in time.

The majority of decision makers will prefer the first pair of alternatives (a gain here and now as well as a loss further away and later) against the second pair of alternatives (the same gain further and later, as well as the same loss here and now) because they undervalue gains and losses that are distant in space and time.

Decision makers use discount rates to value things that are distant in space and time. The present value of a thing is calculated as follows:

$$(7) \quad Pv = v / (1 + \alpha)^x$$

where Pv is the present value of the item under valuation, x is a measure of the distance of v in space or in time, and  $\alpha$  is the discount rate – which is usually between 5% and 15%.

If the distance of the evaluated item in space and/or time is great enough, then its present value is extremely small. Also, the present value depends on the discount rate that is applied: the higher the discount rate, the smaller the present value. Thus the present value of a thing is

determined by the discount rate that is used, and its distance from the decision maker in space and time.

Discounting in space and time is liable to have negative consequences for business and society. Decision makers who significantly discount things in space and time are not interested in solving long-range ecological and human problems, or in the global impacts of their activities on the natural environment and human communities.

The international trade in hazardous wastes is an illustrative case in point. Industrially advanced countries transport and dump hazardous wastes in distant and less-developed countries, displaying no interest in the future ecological impact of these materials on human health.

By combining the main lessons of prospect theory and general theory discounting, we gain insight into the nature of the self-centeredness of modern business organizations.

Consider the following decision problem:

- (8) There are two alternatives for a modern business organization. The first alternative is to make a sure gain, “G”, here and now, and at the same time, to make a loss of “ $yL$ ” further away and later in time, with a probability of  $1/y$  where  $y > 1$ . The second alternative is to make a sure loss, “L”, here and now, and at the same time, to make a gain of “ $xG$ ” far away and later with a probability of  $1/x$  where  $x > 1$ .

Decision makers in modern business organizations will prefer the first alternative (a smaller but sure gain here and now, and a greater but uncertain loss far away and later) against the second one (a greater but uncertain gain here and now and a smaller but sure loss further away and later). Generally speaking, modern businesses favor sure gains here and now and uncertain losses far and later, while they disfavor sure losses here and now and uncertain gains that are positioned further away and later in time (Table 1.1).

**TABLE 1.1** *The self-centered choices modern business organizations make*

	Sure, here and now	Uncertain, further and later
Gains	Accept	Reject
Losses	Reject	Accept

The self-centered orientation of modern business organizations produces environmental and social ills of various kinds.

### **Self-enhancement goals**

Psychologists claim that a division between thought and action takes place when leaders break the rules or get involved in dirty business or politics. What is most surprising in cases of rule violation and misconduct is that leaders are not bothered by their consciences, do not fear being sanctioned, and do not feel obliged to make reparations (Caprara and Capanna 2006).

Stanford psychologist Albert Bandura has described the mechanisms of “moral disengagement,” the psychosocial maneuvers by which moral self-sanctioning becomes disengaged, giving free way to a variety of misbehaviors carried out without moral concern. Self-sanctioning can be disengaged through numerous means: by reconstructing the former conduct, obscuring personal causal agency, misrepresenting or disregarding the injurious consequences of one’s actions, and vilifying the recipients of maltreatment by blaming and devaluing them (1986, 1990, 1991).

The mechanisms of moral disengagement enable otherwise considerate decision makers to commit transgressive acts without experiencing personal distress.

### ***Moral justification***

Decision makers do not ordinarily engage in reprehensible conduct until they have justified the rightness of their actions to themselves. In this process of moral justification, detrimental conduct is made personally and socially acceptable by portraying it in the service of valuable social or moral purposes.

### ***Euphemistic labeling***

Activities can take on markedly different appearances depending on what they are called. Euphemistic labeling provides a convenient tool for masking reprehensible activities or even conferring respectable status upon them. Through sanitized and convoluted verbiage, destructive conduct is made benign, and those who engage in it are relieved of a sense of personal agency.



### *Advantageous comparison*

Behavior can also assume very different qualities, depending on what it is contrasted with. By exploiting advantageous comparisons, injurious conduct can be rendered benign or made to appear to be of little consequence. The more flagrant the activities that are contrasted, the more likely it is that one's own injurious conduct will appear trifling or even benevolent.

### *Displacement of responsibility*

Through displacement of responsibility, decision makers view their actions as springing from the social pressures or dictates of others, rather than as something for which they are personally responsible. Because they are not the actual agents of their action, they are spared self-censuring reactions. Hence, they are willing to behave in ways they normally repudiate, if a legitimate authority accepts responsibility for the effects of their actions.

### *Diffusion of responsibility*

The exercise of moral control is also weakened when personal agency is obscured by diffusion of responsibility for detrimental conduct. Any harm done by a group can always be attributed largely to the behavior of others. People behave more cruelly when there is group responsibility than when they hold themselves personally accountable for their actions.

### *Disregarding or distorting the consequences*

Disregarding or distorting the consequences of actions is another way to weaken self-detering reactions. When people pursue activities harmful to others for personal gain, or because of social inducements, they avoid facing the harm they cause, or they minimize it. In addition to selective inattention and cognitive distortion of effects, the misrepresentation may involve active efforts to discredit evidence of the harm that is caused.

### *Dehumanization*

Self-censure for injurious conduct can be disengaged or blunted by dehumanization that divests people of human qualities or attributes bestial qualities to them. Once dehumanized, they are no longer viewed as people with feelings, hopes, and concerns, but as subhuman objects.

### *Attribution of blame*

Blaming one's adversaries or compelling circumstances is still another expedient that can serve to self-exonerate. In moral disengagement by attribution of blame, people view themselves as faultless victims driven to injurious conduct by forcible provocation. By fixing the blame on others or on circumstances, not only are one's own injurious actions excusable, but one can also even feel self-righteous in the process.

Moral disengagement can affect detrimental behavior both directly and indirectly. Decision makers have little reason to be troubled by guilt or to feel any need to make amends for harmful conduct if they construe it as serving worthy purposes, or if they disown personal agency for it. High moral disengagement is accompanied by low guilt, thus weakening anticipatory self-restraints against engagement in detrimental behavior. Self-exoneration for harmful conduct, and self-protective dehumanization of others and treating them as blame-worthy, spawn a low pro-social orientation. Low pro-socialness, in turn, contributes to detrimental conduct in two ways: Having little sympathy for others both removes the restraining influence of empathetic considerateness of others and activates little anticipatory guilt over injurious conduct. Under some circumstances, effective moral disengagement creates a sense of social rectitude and self-righteousness that breeds ruminative hostility and retaliatory thoughts for perceived grievances. Bandura and his colleagues (2000) have demonstrated the working of such types of disengagement mechanisms in significant business decisions.

Empirical findings suggest that the more decision makers are concerned with self-enhancement, 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 (Caprara and Capanna 2006).

If decision makers become self-concerned, then it is likely that – by employing moral disengagement mechanisms – their self-exonerative maneuvers will do harm to others and the environment. In order to promote the common good, we need agents who care about and pursue self *and* community interests.

## 1.2 The flaws of rationality

Rationality in economics and business is understood as the maximization of one's own utility function. Agents are considered rational if their preferences are transitive and complete, and they choose what they most prefer from the alternatives available to them.

The rational choice model makes no presuppositions about the preferences people have. Individuals may have self-centered, altruistic or even sado-masochistic preferences. The rational choice model is a formal theory that says nothing about what people prefer or should prefer. Hereafter, this model is referred to as “the weak form of rationality”.

In economics and business, a much stronger theory of rationality exists, in which the assumptions of self-interest and perfect knowledge are combined with the weak form of rationality. We refer here to the model of *homo economicus*, according to which individuals are rational, exclusively self-interested, and perfectly knowledgeable about the consequences of their choices. The *homo economicus* model makes substantive assumptions about what people want and the manner in which they want it. This model is hereafter referred to as “the strong form of rationality”.

### Bounded rationality

Herbert A. Simon has been a relentless critic of the rational choice model for decades. He states that the model makes overly strong claims about the decisions of human beings. Real people have poor cognitive capacity, and the information available to them is rather limited in most cases.

Agents in the real world are not capable of maximizing their utility function. Instead of maximizing, they make satisficing decisions. This usually involves choosing the first available alternative that they consider to be “good enough,” in the sense that it satisfies their level of aspiration. This is the main message of the theory of bounded rationality, for which Simon received the Nobel Prize in economics.

Simon (1987: 244) writes,

Faced with a choice situation where it is impossible to optimize, or where the computational cost of doing so seems burdensome, the decision maker may look for a satisfactory, rather than an optimal alternative. Frequently, a course of action satisfying a number of constraints, even a sizeable number, is far easier to discover than a course of action maximizing some function.

The question then arises: what criteria do decision makers use to define what is satisfactory?

Psychology proposes the mechanism of levels aspiration: if it turns out to be very easy to find alternatives that meet the criteria, the standards are gradually raised; if the search continues for a long while without finding satisfactory alternatives, the standards are gradually lowered. Thus, by a kind of feedback mechanism, or “tatonnement,” the decision maker converges toward a set of criteria that are attainable, but not without effort. The difference between the aspiration level mechanism and the optimization procedure is that the former calls for much simpler computations than the latter. (Ibid.)

During the last few decades, economists and psychologists have produced abundant empirical evidence that shows that bounded rationality applies in real world situations.

### **Myopic and deficient choices**

Psychologist Daniel Kahneman (2011) criticizes the rational choice model on the basis of research findings that indicate that people are myopic in their decisions, may lack the skill to predict their future tastes, and can be led to make erroneous choices due to their fallible memories and incorrect evaluation of past experiences.

Kahneman differentiates between “experienced utility” and “predicted utility”. The experienced utility of an outcome is the measure of the hedonic experience of that outcome. The predicted utility of an outcome is defined as the individual’s beliefs about its experienced utility at some future time. Predicted utility is an *ex ante* variable, while experienced utility is an *ex post* variable in the decision-making process.

According to the rational choice model, decisions are made on the basis of predicted utility. If experienced utility greatly differs from predicted utility, then this may lead to sub-rational, or even irrational, decisions.

The problem of predicted utility raises the question: Do people actually know what they will like? The answer is a definite “No”. The accuracy of people’s hedonic predictions is generally quite poor.

Experimental studies offer two conclusions: (1) people may have little ability to forecast changes in their hedonic responses to stimuli, and (2) even in situations that permit accurate hedonic predictions, people may tend to make decisions about future consumption without due consideration of possible changes in their tastes (Kahneman 2011).

Discrepancies between retrospective utility and real-time utility should also be addressed. This leads to the question: “Do people know what they have liked?” The answer is again a definite “No”. Psychological experiments show that retrospective evaluation should be viewed with greater distrust than introspective evaluations of current experiences.

The results of these observations support the following two empirical generalizations: (1) The Peak and End Rule: Global evaluations are predicted with high accuracy by a weighted combination of the most extreme affect recorded during an episode, and of the affect recorded during the terminal moments of an episode. (2) Duration Neglect: The retrospective evaluation of overall or total pain (or pleasure) is not affected by its duration (Kahneman 2011).

Since individuals use their evaluative memories to guide them in their choices of future outcomes, deceptive retrospective evaluations may lead to erroneous choices.

Kahneman identifies two major obstacles to the assumption that the rational choice model makes concerning maximization of experienced utility. People lack skill at the task of predicting how their tastes might change. Rational agents are prone to making significant errors when predicting what they will want or enjoy next week. Another obstacle is a tendency to use the affect associated with particular moments as a proxy for the utility of extended outcomes. Observations of memory biases are significant because evaluations of the past determine what is learned from them. Errors in the lessons drawn from experience will inevitably be reflected in deficient future-related choices (Kahneman 2011).

## Rational fools

Nobel Laureate economist Amartya Sen concluded that if real people behaved in the way that is required of them by the rational choice model, then they would act like “rational fools” (Sen 1987).

Sen criticizes both the weak and strong forms of rationality. He refers to the weak form as “internal consistency of choice” and to the strong form as “maximization of self-interest”. He states,

It is hard to believe that internal consistency of choice can itself be an adequate condition of rationality. If a person does exactly the opposite of what would help achieving what he or she would want to achieve, and does this with flawless internal consistency (always choosing exactly the opposite of what will enhance the occurrence of things he or she wants and values), the person

can scarcely be seen as rational....Rational choice must demand something at least about the correspondence between what one tries to achieve and how one goes about it. (Ibid.: 13)

Sen uses the term “correspondence rationality” to describe the correspondence between a choice and the aims and values of the agent. He states that this kind of correspondence must be a necessary condition of rationality, regardless of whether or not it is also a sufficient condition. Correspondence rationality may be supplemented by some requirements concerning the nature of reflections about what the actor should want and value (ibid.: 13–14).

It is arguable that rational behavior must demand some level of consistency, but consistency itself can hardly be sufficient to ensure the rationality of choice. Internal consistency of choice is not a guarantee of a person's rationality.

Rationality as self-interest maximization has additional problems. Sen asks, “Why should it be uniquely rational to pursue one's own self-interest to the exclusion of everything else?” Sen argues that the self-interest view of rationality involves *inter alia* a firm rejection of the “ethics-based” view of motivation. Trying to do one's best to achieve what one would like to achieve can be a part of rationality, and this can include the promotion of non-self-interested goals which we may value and wish to aim at. To see any departure from self-interest maximization as evidence of irrationality must imply a rejection of the role of ethics in actual decision-making. (Ibid.: 15)

According to Sen, “universal selfishness as actuality may well be false, but universal selfishness as a requirement of rationality is patently absurd” (ibid.: 16).

Rationality can be interpreted broadly as the discipline of subjecting one's choice – of action as well as objectives, values and priorities – to reasoned scrutiny. In the light of this definition, reasonable economic choices should not necessarily satisfy the criteria of “internal consistency of choice” or “maximizing self-interest”. Economic choices should be subjected to the demands of reason (Sen 2004).

## **The strategic role of emotions**

Behavioral economist Robert Frank has developed a model that emphasizes the role of the emotions in making choices. Frank argues that passions often serve our interest very well indeed, because we face

important problems that are simply unsolvable using rational means. “Emotions often predispose us to behave in ways that are contrary to our narrow interests, and being thus predisposed can be an advantage” (1988: 4–7).

Human behavior is directly guided by complex psychological reward mechanisms. Rational calculations are the input for the reward mechanisms. “Feelings and emotions, apparently, are the proximate causes of most behavior.... The reward theory of behavior tells us that these sentiments can and do compete with feelings that spring from rational calculations about material payoffs” (ibid.: 51–53).

Modular brain theory supports Frank’s ideas. According to this theory, the brain is organized into a host of separate modules. Each module has its own capacity for processing information and motivating behavior. Most of these brain modules do not “speak”; they simply do not have language capability. Even more importantly, these non-language modules are not equally well connected to the central language module of the brain. Perhaps this is the cause of the seeming disparity between different methods of assessing motivation.

Modular brain theorists view the language module of the brain as the center of our rational consciousness, obsessed with rationalizing all that we feel and do. However, there is a great deal of information that enters the central nervous system that cannot be accessed by the language module. Modular brain theory suggests,

that when economists talk about maximizing utility, they are really talking about the language module of the left hemisphere, however, it does not account for all of our behavior.... The rational utility-maximizing language module of the brain may simply be ill-equipped to deal with many of the most important problems we face. (Ibid.: 205–211)

Frank’s main conclusion is that persons directly motivated to pursue their own self-interest are often doomed to fail for exactly this reason. Problems are often solved by people who have abandoned the quest for maximal material advantage. The emotions that lead people to behave in irrational ways can indirectly lead to greater material well being (ibid.: 258–259).

## **Social norms**

After a decade-long preoccupation with the rational choice model, sociologist Jon Elster developed an alternative theory that he calls the theory

of social norms (1989, 2007). Elster contrasts rational action with norm-guided behavior. Rational action is outcome-oriented. Rationality says: “If you want to achieve X, do Y.” Elster defines social norms as devices that are not outcome-oriented. Social norms say “Do X” or “Do not do Y”, or “If you do X, then do Y” or “Do X if it would be good if everyone did X.”

Rationality is essentially conditional and future-oriented. Its imperatives are hypothetical; that is, conditional on the future outcomes one wants to realize. The imperatives expressed in social norms are either unconditional or, if conditional, not future-oriented. In the latter case, norms make the action dependent on past events or (more rarely) on hypothetical outcomes. (Elster 1989: 98)

Not all norms are social. Two conditions are required for norms to be considered social. First, others must share them, and second, they should be partly sustained by others’ approval or disapproval.

In addition to being supported by the attitudes of other people, norms are sustained by the feelings of embarrassment, anxiety, guilt and shame that a person suffers at the prospect of violating them, or at least at the prospect of being caught violating them. Social norms have a grip on the mind that is due to the strong emotions their violations can trigger. ... A norm, in this perspective, is the propensity to feel shame and to anticipate sanctions by others at the thought of behaving in a certain, forbidden way. (Ibid.: 99–100 and 105)

Elster argues for the reality and autonomy of social norms. By “the reality of norms,” he means that norms have independent motivating power. They are not merely the *ex post* rationalization of self-interest. They serve as *ex ante* sources of action. The autonomy of norms refers to their irreducibility to optimization. Norms are partly shaped by self-interest because people often adhere to the norms that favor them. However, norms are not fully reducible to self-interest. The unknown residual is a brute fact (ibid.: 125, 150).

## **The communitarian challenge**

Communitarian thinkers criticize the liberal conception of the self that is at the heart of the rational choice model. Philosopher Charles Taylor (1985) has argued that the liberal conception of the self basically involves an atomistic conception of the person and of human agency that focuses exclusively on will and freedom of choice. Taylor defends a relational, inter-subjective conception of the self that stresses the social, cultural,



historical and linguistic constitution of personal identity. By rejecting the voluntaristic conception of human agency, he has formulated a cognitive conception that emphasizes the role of critical reflection, self-interpretation, and rational evaluation.

Catholic philosopher Alasdair MacIntyre (1988) defends a teleological and contextualist view of human agency. According to him, moral conduct is characterized by the exercise of virtues that aims at realization of the good. No agent can properly locate, interpret, and evaluate her or his actions except by participating in a moral tradition or in a moral community.

### **Feminist criticism**

In feminist literature, rational choice theory, particularly the strong form of rationality, is often criticized for presupposing an androcentric, male-biased conception of the human person, the so-called separative self (Ferber and Nelson 1993; Nelson 2006).

In her book, *Beyond Self-Interest*, Jane J. Mansbridge (1990) offers an alternative theory of choice that is inspired by feminine values. She distinguishes between three forms of motivation: duty, self-interest, and love. Using an example from her own life, she says,

I have a duty to care for my child, and I am happy by his happiness, and I get a simple sensual pleasure from snuggling close to him as I read him a book. I have a principled commitment to work for women's liberation, and I empathize with women, and I find a way to use some of my work for women as background to a book that advances my academic career. Duty, love (or empathy), and self-interest are intermingled in my actions in a way I can rarely sort out. (134)

Mansbridge favors the comingling of duty and love with self-interest. She says that both forms of non-self-interested motives (empathic feelings and moral commitments) are embedded in a social context, which makes them susceptible to being undermined by self-interested behavior on the part of others. Arrangements are required that generate some element of self-interest-based return on non-self-interested behavior for the creation of an "ecological niche" to sustain such behavior. Arrangements that make the absence of self-interested behavior less costly in terms of self-interest increase the degree to which individuals feel that they can afford to indulge their feelings of empathy and their moral commitments (ibid.: 136–137).

Based on the criticisms reported above, we find the rational choice model to be empirically misleading and normatively inadequate. Stanford organizational theorist James March has rightly characterized it as “the myth of rationality” (March 2006).

### 1.3 Problems with the profit-principle

The materialistic management model of business infers the existence of money-driven, extrinsic forms of motivation, and measures success only in monetary terms. 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 economic success, while the other deals with money as the main motivation for engaging in economic activity.

Using the indicator “profit” to evaluate the success of economic activities is not appropriate, as it offers an incomplete and imperfect evaluation of those activities. Profit reflects the values of the strongest stakeholders, favors preferences concerning the here and now, and presupposes the reducibility of all kind of values to a monetary form.

Money becomes problematic when considered the exclusive motivation for engaging in economic activity. It can crowd out the intrinsic motivation of economic actors, which may lead to decreases in the quality of economic performance (Frey 1997). Additionally, monetary incentives cultivate a self-centered value orientation that results in socially insensitive and ethically irresponsible behavior. If economic agents become overly self-interested, then it is likely that – by employing moral disengagement mechanisms – their self-exonerative maneuvers will do harm to others.

#### Problems with profit as an indicator

The market as an evaluation mechanism has its inherent deficiencies. First, there are stakeholders that are simply unrepresented when market values are determined. Natural beings and future generations do not have the opportunity to directly influence the marketplace. Second, 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 thus underrepresented in free market settings. Third, the actual preferences of the market players are rather self-centered and myopic – that is, economic agents make decisions regarding only short-term consequences.

To use profit as the sole criterion for judging economic activities implies that there exists strong commensurability of values – implying that there can exist a single measure for evaluating 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 the full cost pricing of activities can be undertaken.

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 and Gowdy 2000). Similar arguments can be developed about important human and social values such as health and safety, ethics and aesthetics.

Profit can be used as an indicator of the financial viability of economic projects but not as an exclusive criterion for judging the appropriateness of economic activities. To assess the overall value of an economic activity, we should use a number of non-financial value-criteria in addition to profit.

The following is an illustration of such a multidimensional and holistic evaluation procedure.

The underlying idea of project evaluation is that a project is worthy of being undertaken if, and only if, the state of affairs *with* the project is better than the state of affairs *without* the project.

Let  $P$  be a project whose total monetary cost is  $p^*$ . Let  $Q$  be the original state of affairs (that is, the state of affairs without the project). Let  $Q^*$  be the new state of affairs (the state of affairs with the project).

There are two alternative uses for the money  $p^*$ . One alternative is to undertake project  $P$  by financing it with money  $p^*$ . The other is not to undertake project  $P$  and use money  $p^*$  for financing other projects (such as investing in treasury bonds).

Let  $d(P)$  be the discounted cash flow that project  $P$  can produce for a given period of time. Let  $d(p^*)$  be the discounted total earnings of the amount of money  $p^*$  for the same period of time. So  $d(P)$  and  $d(p^*)$  represent two alternative uses of the same amount of money.

Let  $E( )$  be a value function by which the state of affairs can be evaluated using an ordinal scale from the ecological point of view.

- (I)  $E(Q) =$
- 1 if the state of affairs  $Q$  is beneficial to nature;
  - 0 if the state of affairs  $Q$  has a neutral impact on nature;
  - 2 if the state of affairs  $Q$  is harmful to nature.

Let  $S( )$  be value functions by which the state of affairs can be evaluated using an ordinal scale from the social point of view.

- (II)  $S(Q) =$
- 1 if the state of affairs  $Q$  is good for society;
  - 0 if the state of affairs  $Q$  has a neutral impact on society;
  - 2 if the state of affairs  $Q$  is bad for society.

Let  $M( )$  be a monetary value function as follows:

- (III)  $M(P) =$
- 1 if the discounted cash flow  $d(P)$  is positive;
  - 0 if the discounted cash flow  $d(P)$  is zero;
  - 2 if the discounted cash flow  $d(P)$  is negative.

The following vector provides an overall evaluation of the original state of affairs:

$$(IV) [E(Q), S(Q), M(p^*)]$$

where  $E(Q)$  and  $S(Q)$  represent the environmental evaluation and the social evaluation of the original state of affairs, and  $M(p^*)$  represents the financial outcome of not undertaking the project.

The overall evaluation of the new state of affairs is provided by the following formula:

$$(V) [E(Q^*), S(Q^*), M(P)]$$

where  $E(Q^*)$  and  $S(Q^*)$  represent the environmental evaluation and social evaluation of the new state of affairs, and  $M(P)$  represents the monetary evaluation of the project itself.

The necessary and sufficient condition for undertaking a project is that the following preference relation is hold true:

$$(VI) [E(Q^*), S(Q^*), M(P)] \Rightarrow [E(Q), S(Q^*), M(p^*)]$$

This means that the state of affairs with the project should be *better* than the state of affairs without the project, with due regard to environmental, social, and monetary values simultaneously.

Social choice theory may help us to make decisions in situations such as (VI).

The process of evaluating a multidimensional project outlined above demonstrates that economic projects can be evaluated without accepting the strong commensurability assumption of mainstream economics. The crux of the matter is that we should extend the informational bases of analyses and broaden the evaluative space beyond monetary values to include ecological and social values that cannot adequately be translated into financial indicators.

### **Problems with profit as motivation**

Considering profit to be the main motivation in economic activity is dangerous, as a focus on profit may decrease the intrinsic motivation of economic actors, which can lead to decreases in quality. Additionally, it cultivates a self-centered value orientation, which results in socially insensitive and ethically irresponsible behavior.

Bruno Frey's "crowding out" theory shows why a motivation for profit may be counterproductive. 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 is thereby negatively affected. The crowding-out effect of pricing may also spill over into sectors where no pricing is applied (the "spillover effect") if the people 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 1997).

The crowding out mechanism has important consequences for the famous statement of Adam Smith that we should expect our bread to be produced not due to the benevolence of the baker, but from his own self-interest. Certainly, the expectation that the baker will make a profit is a major incentive, but the production of truly healthy and aesthetically gratifying bread requires something different: prioritizing intrinsic commitment over monetary reward. The dangerous and unsustainable practice of modern agribusiness clearly demonstrates this point.

Modern agribusiness is failing to provide people with healthy, ethical, and ecologically sensitive food because of the underlying business

paradigm: it produces low-quality food and has negative effects on nature, human health, and society (Zsolnai and Podmaniczky 2010).

Modern agribusiness involves the use of large-scale, industrialized, vertically integrated food production systems. It creates harm to both natural ecosystems and social communities. The products of industrial agriculture are typically low quality, with low nutritional value. Industrial agricultural systems focus on production and largely neglect the biological and social functions of the landscape. The methods and technology they employ are based on the principles of efficiency, productivity, and profitability.

A critical question that must be addressed is whether the quality of the food that reaches the consumer is as good as it would be under alternative structures of ownership and production. To the extent that corporate farming primarily seeks to maximize profit, it may adversely affect nutritional value, freshness, and flavor, as well as the range of products available to consumers. Corporate farming practices typically involve the use of genetically modified crops, preservatives, color additives, and insecticides.

Agriculture is a multi-output activity that produces not only commodities (food, feed, fibers, agro-fuels, medicinal products, and ornamentals), but also non-commodity outputs, such as environmental services, landscape amenities, and cultural heritage (IAASTD Synthesis Report 2009: 4). The dominant competitive orientation of modern agribusiness makes a profit and increases productivity at the expense of the environment, society, and human health.

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