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Responsible Business Conduct: Establishing Harmony among Ethical, Business and Societal Values

The recent years the fast growing Chinese economy produced serious imbalances between the welfare of urban and the rural population, as well as between society and nature. Achieving a socially and ecologically balanced economic development path is badly needed in China.

The paper presents an operationalized model for responsible business conduct. The starting point is Kenneth E. Goodpaster's conception of moral responsibility. In the proposed model decision alternatives are simultaneously evaluated from different value perspectives. Responsible business conduct is defined as finding the least worst alternative in the multidimensional decision space of deontological, goal-achievement, and stakeholder values. In this way harmony among ethical values, business values and societal values can be established.

Character traits of the responsible business leader are also provided. The revival of Confucianism may provide a promising ideological background for promoting responsible business conduct in China.

1. Unbalanced Growth

The fast growing Chinese economy has caused serious imbalances between the welfare of urban and rural population as well as between society and nature since the economic transition of 1978. Achieving a socially and ecologically balanced economic development path is badly needed in China.

Mainstream economists tend to regard the rate of economic growth – in the context of total factor productivity, capital and labor inputs – as a purely technical indicator for the appraisal and comparison of overall performances of different countries. They also add a basic value statement to economic analysis, namely, high rate of growth is by all means desirable for promoting important social and economic goals of society and a slowdown in growth is certainly deplorable because it impedes the fulfillment of these very same goals. The high rate of growth in China is a case in point. As a result of the uninterrupted high rate of growth, Chinese GDP has surpassed Britain's and France's by the beginning of this year. By now China has become the greatest manufacturer and exporter in technology and consumer goods and will match the United States in the next two decades. (Allen et. al. 2005; Rawski 2005)

Nevertheless, there are different social and economic problems behind these impressive economic figures and forecasts. Distributive inequalities, social dislocation, urban and rural strife, the weak adherence to the rule of law, labor and human rights violations, sweatshop abuses, corruption, the rapid exhaustion of natural resources and environmental degradation can hardly be expressed in terms of simple economic figures. The “soft” indicators of economic growth relating to welfare, distributive justice, environmental performance, sustainability, knowledge production, public health, economic and social rights should be included in economic analysis and forecasts. Taking the social, cultural, and environmental aftermath of growth into consideration in economic analysis, many Western experts are convinced that the Chinese economy does not follow the path of sustainable development for decades due to the fact that it draws primarily on physical capital, energy, and natural resources. (Kuijs and Wang 2005) In addition, the recent institutional framework of China – owing to the weak adherence to the rule of law, the lack of transparency and accountability in decision-making processes and the absence of stakeholder oriented corporate governance sys-

tem in business enterprises – seems to be inadequate for preventing or at least alleviating disruptive consequences of an unfettered market system for society and environment. (Dam 2006; Hartman et al. 2003; Kaufmann et al. 2005; Teansparency International Index 2005; Whalley and Zhang 2004; Wu and Perloff 2004) The predominance of state ownership necessitates regular governmental interventions in business matters; however, bureaucratic control over the business activities of enterprises can not be a substitute for stakeholder oriented corporate governance systems. As the pervasiveness of environmental degradation, social and economic conflicts demonstrates, state can not effectively balance between the political priority of economic growth and the overall welfare of its citizens if it is captured by special interests, governmental or municipal favoritism at the cost of the common good. Meanwhile the state as the key economic actor and regulator has weak incentives to protect the economic interests of its citizens; it politically deprives them of claiming their rights of what are denied in the economy. Nowadays this strict regime seems to be relaxed in the *Code of Corporate Governance for Listed Companies in China* (2002) and the *Chinese Company Law* (2006). As business enterprises do not merely hold responsibility towards their owners or their dominant shareholder – namely, the Chinese state – but also multiple stakeholders like civil society, local communities, consumers, employees, subcontractors and others, stakeholder oriented corporate governance system should be established and institutionalized in corporate strategy, management and operation. Recently, the Chinese government appears to make an important step towards setting up standards of corporate social responsibility. These governmental attempts are quite manifest in the Articles 81-86 of the *Code of Corporate Governance for Listed Companies in China* and the Article 5 of the *Chinese Company Law* taken effect on the 1st of January 2006, though institutional arrangements for voice offered to stakeholders in the process of economic decision-making have not been stipulated, yet. (Lin 2006)

2. Goodpaster's Model of Moral Responsibility

In corporate context Kenneth E. Goodpaster presented the most advanced model of moral responsibility. (Goodpaster and Matthews 1982; Goodpaster 1983)

Following William K. Frankena (1980), Goodpaster proposes to understand moral responsibility as a combination of two basic components, namely rationality and respect.

Rationality involves the following attributes:

- (i) lack of impulsiveness;
- (ii) care in mapping out alternatives and consequences;
- (iii) clarity about goals and purposes;
- (iv) attention to details of implementation.

Rationality described by attributes (i),..., (iv) radically differs from the rationality postulate of standard economics that identifies rationality with self-interest maximization under perfect knowledge of consequences. The rationality concept used here is process-oriented and does not require to maximizing anything. Max Weber's concept of 'Zweckrationalität' and Herbert Simon's notion of procedural rationality are closely related to it. (Weber 1921-1922; Simon 1976, 1978)

Respect is the other component of moral responsibility. "The moral point of view also includes a special awareness of and concern for the effects of one's decisions and policies on others, special in the sense that it goes beyond the kind of awareness and concern that would ordinarily be part of rationality, that is, beyond seeing others merely as instrumental to accomplishing one's own purposes. (...) This is respect for the lives of others and involves taking their needs and interests seriously, not simply as resources in one's own decision making but as limiting conditions which change the very definition of one's habitat from a self-centered to a shared environment. (Goodpaster and Matthews 1982 p. 134.)

Respect described in this way has a basic similarity to the altruistic behavior that is widely discussed in economics. The prominent Italian economist, Stefano Zamagni offers a clear conceptualization of altruistic behavior. He defines individuals as altruistic "when they feel and act as if the welfare of others were an end in itself; that is, as something of relevance independently of its effects on their own well-being." If your concern for the welfare of others is merely instrumental for promoting your own

longer-term ends and ceases once these ends can more easily be pursued in some other way, you are an enlightened self-interest person, not a genuine altruist.

Zamagni states the sufficient conditions of altruistic behavior as follows. A beneficial behavior is altruistic if it is actuated either by altruistic reasons only or by a mixture of altruistic and non-altruistic reasons when the former, in the absence of the latter, would have been sufficient to generate the beneficial behavior. (Zamagni 1995 p. xvi)

To repeat, in Goodpaster's understanding moral responsibility is a combination of rationality and respect in the decision making context.

He writes: "Rationality involves the pursuit of one's projects and purposes with careful attention to ends and means, alternatives and consequences, risks and opportunities. Respect involves consideration of the perspectives of other persons in the pursuit of one's rational projects and purposes. In the words of Kant, respect implies treating others, especially affected parties, as ends and not mere means. It implies a self-imposed constraint on rationality born of a realization that the worth of our projects and purposes resides in the same humanity shared by those who are likely to be affected by them. Taking the 'moral point of view' therefore, has both self-directed component (rationality) and other-directed component (respect). These, at least, provide us with an understanding of the spirit that underlines the concept of moral responsibility." (Goodpaster 1983: p. 7.)

Goodpaster's model is certainly a non-utilitarian consequentialist system interwoven with agent-relative elements. It permits for the decision maker not to produce the overall best consequences for the stakeholders in order to realize her or his own goals and purposes. Also the model extends to incorporate agent-relative constraints that would simply forbid certain courses of action for the decision maker. (Scheffler 1988)

In Goodpaster's model "respect" is not an unambiguous notion. It reflects a mix of deontological and consequentialist considerations. I think that this mixed notion should be deconstructed to arrive at a more operationalized model of moral responsibility.

I propose to define respect as altruistic interest in the well-being of the affected parties. In addition, I propose to introduce deontological considerations as a separate component into the model of moral responsibility. This separation of non self-interested motives has considerable support in the economic, psychological, and sociological literature.

Jane Mansbridge refers to love and duty as the two basic forms of non self-interested motivation. (Mansbridge 1990) Amartya Sen labeled this pair of motives as sympathy and commitment. (Sen 1977) John Elster differentiates between altruism on the one hand and norm-following behavior on the other hand. (Elster 1989) Christopher Jencks uses the terms empathy and morality. (Jencks 1990) In their experimental study on cooperation Robyn M. Dawes, Alphons J.C. van de Kragt, and John M. Orbell refer to we-feeling and conscience in a similar way. (Dawes et. al. 1990)

We can get a more robust model of moral responsibility by characterizing responsible decision making as a synthesis of deontological considerations, rationality in goal-achievement, and respect for the stakeholders.

We call this modified model of moral responsibility the 3 R model, since responsibility = reverence + rationality + respect. This means that a responsibility requires making decisions in a way that displays reverence for the applying norms, promotes the achievement of decision maker's goals, and shows respect for the affected parties.

3. A Model for Responsible Business Conduct

In complex business decision situations the following basic elements can be identified. At least two decision alternatives are available in the situation, that is, the decision makers can choose among different courses of action. In the decision situation ethical norms apply which represent duties of the decision makers. The decision maker have goals that they want to achieve in the decision situation. Finally, different stakeholders are present that can be affected by the outcome of the decision.

We formalize the above listed elements of complex decision situations as follows:

$$(1) \quad \mathbf{A1, \dots, Ai, \dots, Am} \quad (\mathbf{m} \geq 2)$$

This means that at least two decision alternatives are available for the decision makers.

$$(2) \quad \mathbf{D1, \dots, Dk, \dots, Dp} \quad (\mathbf{p} \geq 1)$$

This means that at least one ethical norm apply in the decision situation.

$$(3) \quad \mathbf{G1, \dots, Gj, \dots, Gn} \quad (\mathbf{n} \geq 1)$$

This means that the decision makers have at least one goal that they want to achieve.

$$(4) \quad \mathbf{S1, \dots, Sq, \dots, Sr} \quad (\mathbf{r} \geq 1)$$

This means that at least one stakeholder is present in the decision situation.

Responsible business conduct involves finding and implementing the decision alternative that best corresponds to the idea of responsibility in the given business situation.

Now we are in the position to pose the question: which is the appropriate rule for responsible business conduct.

$$(5) \quad \mathbf{A^*} = \mathbf{\Omega} (\mathbf{A1, \dots, Ai, \dots, Am})$$

where $\mathbf{A^*}$ refers to the selected decision alternative.

We are searching for the decision rule $\mathbf{\Omega}$ that selects the responsible course of action among the courses of action available for the decision makers.

Deontological pay-off is defined as the value of a decision alternative seen from the perspective of the applying ethical norms.

The deontological pay-offs of the decision alternatives $A_1, \dots, A_i, \dots, A_m$ can be represented by a vector as follows:

$$(1) \quad \underline{d} = [D(A_1), \dots, D(A_k), \dots, D(A_m)]$$

The aggregate deontological pay-offs of decision alternatives depend on two things. (i) Which are the considered ethical norms? (ii) How are the importance weights assessed?

The answer to these questions is that an ideal third party, the so-called ‘impartial spectator’ should define the set of applying ethical norms and assess the corresponding weights in the given situation. The fact is, however, that such an ideal third party does not exist. The practical question is how it can be approximately substituted in real world situations? Possibilities include some new institutions of deliberative democracy such as citizens’ jury, for example. (Jacobs 1996)

For assessing the weights, any method can be used that produces importance weights measured at least on an interval scale. (Stewart 1992)

It is natural that the decision makers consider the value of the decision alternatives from the perspective of the achievement of their goals. In classical decision theory this was the only dimension in which courses of action were evaluated and decided upon.

The goal achievement value of the decision alternatives $A_1, \dots, A_i, \dots, A_m$ can be represented by a vector.

$$(2) \quad \underline{g} = [G(A_1), \dots, G(A_i), \dots, G(A_m)]$$

The important question is that to what extent the decision maker is free to choose her or his goals and the weights she or he attributes to the chosen goals?

The rational choice theory suggests that the decision maker is completely free both in selecting her or his goals and in weighting them. In fact, the decision maker is em-

bedded in interpersonal relations and the social context. (Granovetter 1985; Etzioni 1988) So it is realistic to presuppose that the decision maker sets her or his goals and assigns weights to them in reference to those organizations and communities in which she or he happens to be existing.

Stakeholders are present in complex decision situations and the decision alternatives render different pay-offs for them.

The stakeholder pay-offs of decision alternatives $A_1, \dots, A_i, \dots, A_m$ can be represented by a vector:

$$(3) \quad \underline{s} = [S(A_1), \dots, S(A_i), \dots, S(A_m)]$$

In contemporary moral philosophy different perspectives or viewpoints have been identified from which a decision or an act can be evaluated.

Amartya Sen distinguished between the viewpoint of the agent, the viewpoint of the observer, and the viewpoint of the agent as she or he sees herself or himself (doer relativity, viewer relativity, and self-evaluation relativity) (Sen 1982 pp. 204-212.)

Holding (1), (2), and (3) together we can get a multiple evaluation of the decision alternative A_i .

$$(4) \quad \underline{v} = [D(A_i), G(A_i), S(A_i)]$$

The first component of the vector is the deontological value of the decision alternative A_i , the second component is the goal-achievement value of the decision alternative A_i , while the third component is the stakeholder value of the decision alternative A_i .

The vector \underline{v} represents a simultaneous evaluation of the same course of action from different perspectives. The deontological value is assessed from the perspective of an impartial observer, the goal-achievement value is assessed from the perspective of the decision maker, while the stakeholder value is assessed from the perspective of the affected parties.

Amartya Sen introduced the concept of goal rights systems by which he means moral accounting systems where the fulfillment and non-realization of rights are incorporated in the evaluation of states of affairs. (Sen 1982, 1983, 1985)

Sen lists the characteristics of the goal rights systems as follows: “First, the goal rights system form a wide class rather than represent some unique moral position. There are many sources of difference, for example, what rights to include among the goals, in what form they are to be included, what non-right values (if any) are to be admitted, what weights to use, how should choice of actions be related to the evaluation of outcomes. Second, although rights are included within the evaluation of states of affairs, there could be other things to which the evaluation of states of affairs is sensitive in a goal rights system. The crucial issue is the inclusion of fulfillment and non-fulfillment of rights - rather than the exclusion of non-right considerations - in the evaluation of states of affairs. Third, while sensitivity of action-evaluation to consequences is essential for a rights-consequence system, such a system need not be fully consequentialist. Fourth, it may be worth emphasizing that, although a goal rights system incorporates a goal-included view of rights, it does not reject the instrumental relevance of rights either.” (Sen 1982 p. 199.)

The moral accounting system represented by (4) is a special sub-class of Sen’s goal rights systems. However, there is an important difference. Our accounting system permits or even encourages the incorporation of those ethical norms that do not have corresponding rights while this is not permitted in the goal rights systems. In this sense it represents a broader category than Sen’s goal rights systems.

The ‘responsibility calculus’ advanced here, is very close to Sen’s own ideal about the moral evaluation of acts. He wrote in his influential book *On Ethics and Economic*: “To get an overall assessment of the ethical standing of an activity it is necessary not only to look at its own intrinsic value (if any), but also its instrumental role and its consequences on other things. (...) The advantages of consequential reasoning involving interdependence and instrumental accounting can then be combined not only with intrinsic valuation, but also with position relativity and agent sensitivity of moral assessment.” (Sen 1987 p. 75. and p. 77.)

A complete picture about the decision situation can be provided by a matrix that contains multiple evaluations of all the decision alternatives available for the decision makers.

$$(5) \quad \underline{\mathbf{V}} = \begin{matrix} & \mathbf{D(A1),.....,G(A1),.....,S(A1)} \\ \cdot & \cdot & \cdot \\ \mathbf{D(Ai),.....,G(Ai),.....,S(Ai)} \\ \cdot & \cdot & \cdot \\ & \mathbf{D(Am),.....,G(Am),.....,S(Am)} \end{matrix}$$

The matrix $\underline{\mathbf{V}}$ may present incommensurability of different kinds for the decision maker as it was discussed earlier. This situation is called unresolved value conflict by Isaac Levi in his treatment of ‘hard choices’. (Levi 1986)

Levi’s proposal for making a choice under unresolved value conflict is that the decision maker should prioritize the conflicting values and then she or he can select the best alternative by using a lexicographic decision rule. That is, the decision maker should choose the decision alternative whose performance is the best according to the highest ranked value in the given situation.

In a complex choice situation the application of the lexicographic rule is rather unattractive or even counter-productive. It reduces the multidimensionality of the choice situation into one dimension. In the end the decision maker using the lexicographic rule deliberates her or his choice either as a deontological choice or a rational choice or an altruistic choice.

Another opportunity is to keep the complexity of the decision situation and try to find an optimal compromise among diverse value dimensions.

Compromise has been disfavored by moral philosophers until recently. But inasmuch as the position of moral pluralism becomes accepted, the value of compromise becomes more and more clear. (Benjamin 1992) Trying to balance different values against one another is an essential strategy in complex choice situations.

The maximin rule can do the required job quite well. It implies the maximization of the minimum pay-off of decision alternatives.

The maximin rule is intuitively known by chess players. However, it was first described by Austrian logician Ernest Zermelo in 1912. The rule was developed further by the Hungarian-American mathematical genius, John von Neumann in his groundbreaking “Theory of Games and Economic Behavior” (Von Neumann and Morgenstern 1944)

The rule of responsible business conduct is stated as follows:

$$(6) \quad A^* = \text{maximin } [D(A_i), G(A_i), S(A_i)]$$

Responsible choice demands the selection of the least worst alternative in the decision space of deontological, goal-achievement, and stakeholder values, in the sense that the minimum value of the selected alternative is greater than the minimum value of any other alternative available for the decision maker in the given situation.

If there are two decision alternatives **A1** and **A2** then the responsible choice model requires the selection of **A1** if and only if

$$\min [D(A1), G(A1), S(A1)] > \min [D(A2), G(A2), S(A2)]$$

The underlying principle of responsible decision making is that the decision maker should find an optimal compromise among the applying ethical norms, her or his own goals, and the interest of the stakeholders.

The responsible decision making provides a Pareto optimal result in the multidimensional decision space. This means that given the set of decision alternatives it is not possible to increase their pay-off in one value dimension without decreasing their pay-off in at least one other value dimension. In this sense the alternative chosen by the maximin rule dominates all the other alternatives.

The procedural model of responsible business conduct can be summarized as follows:

- (I) Framing the decision by
 - (i) identifying the applying ethical norms;
 - (ii) mapping out the affected parties;
 - (iii) defining goals and generating alternatives.

- (II) Multiple evaluation of the decision alternatives regarding
 - (i) the ethical norms;
 - (ii) the goals to be achieved;
 - (iii) the affected parties.

- (III) Finding the least worst alternative in the multidimensional space of deontological, goal-achievement, and stakeholder values.

There is always a conflict or at least some tension among the ethical norms, the decision maker's goals, and the interests of the stakeholders. Making a responsible choice is not an easy business at all. What is important is not the elimination of the conflict but to provide some congruence among ethical norms, the achievable goals, and the interests of the stakeholders.

4. The Responsible Business Leader

The responsible business leader can be characterized as having an ability of taking multiple perspectives and making optimal compromises across diverse value dimensions. Sociology can help us to find some basic character traits of the responsible decision maker.

Amitai Etzioni described the 'properly socialized person' who represents a middle way between the over-socialized person and the under-socialized person.

The idea of a 'properly socialized person' advocates that the goals people pursue are not universal or stable over time, but are greatly varied and changing, and cannot be arranged into a neat over-arching monolithic scheme. People are members of diver-

gent social collectivities. Hence there is a dynamic of forces that determine a person's socialization, as well as her or his deviation or rebellion against a socially prescribed set of goals. (Etzioni 1988 p. 14.)

The responsible business leader is certainly a properly socialized individual who has developed reflexivity on the ethical norms of her or his society and displays empathy toward the others with which she or he shares a common environment.

The components of the 3 R model of responsibility, namely reverence for the ethical norms, rationality in goal-achievement, and respect for the others can be considered as virtues. These are motivational dispositions that determine ways individuals tend to act in certain sorts of circumstances.

5. Universalism versus Particularism in Business and Societal Values

The so-called Western ethical views on fair business conduct and corporate social responsibility are frequently criticized in China. The Chinese opponents use cultural, political, and economic arguments to refute the legitimacy of ethical considerations on the economy, corporate social responsibility, and stakeholder engagement in the process of economic decision-making. They argue that the compliance with fair and responsible business practice, labor, and environmental standards required by multinational corporations on behalf of their Western customers put a heavy cost burden on the Chinese enterprises and weaken their competitive advantage and financial performance in the global market. They suspect that pressing the Chinese enterprises to keep in line with these requirements is partly motivated by protectionist consideration.

It can not be denied that the improvements of labor and environmental conditions, introducing stakeholder dialogue, risk management, social and environmental auditing in business impose additional economic costs on business enterprises. Nevertheless, it is a legitimate social and economic aim of stakeholders to prevent business enterprises to externalize the costs of production and private use of nature onto non-beneficiaries and society at large. Sweetshops, poor working conditions, economic rent-seeking, and over-utilization of natural resources may yield short-term benefit for business enterprises. But the competitive advantages of business enterprises resulted by these

abuses are not priceless for the society which has to bear their social costs if proper regulatory regime, effective enforcement, self-imposed constraints of corporations and the pressure of civil society do not render otherwise. To put it briefly, unfair business conduct, economic coercion, the lack of appropriate institutional arrangements and over-utilization of natural resources do not have welfare enhancing effects on society. (Summers 2001; Trebilcock and Howse 2005)

As far as the cultural argument is concerned, the Western ethical reflections on the role of business enterprises in society and corporate social responsibility are frequently denounced as the manifestation of cultural imperialism and a colonial style of speech which are alien to the Chinese tradition. In contrast to this Chinese critique, some Western authors tend to reduce this complex debate about ethics and moral principles to the cultural split between universalism and particularism in moral and societal values. Following the classification scheme of the Weberian sociology, they are convinced that the irrevocable opposition about moral and societal values originates from the secular historical process, namely, the progressive challenge of the universalistic Western worldview to moral particularism and parochialism from the beginning of the Enlightenment. The dissemination of universalism in business values has gained momentum, especially, in the last few decades. This deeply-rooted belief conceals basic disagreements about ethical principles, values, and moral motivations in the main currents of the Western moral philosophy. Both views are fairly unreflective and replete with some ethnocentrism. Therefore none of them provides single vantage point on what theoretical or practical basis can we universalize our moral and societal values?

Moral philosophy is an incurable pluralistic discourse if we do not appeal to a higher authority and accept that the only source of the legitimation of a democratic society is the freedom of its citizens. Furthermore, we regard them as free and equal participants of deliberation about individual and social welfare, the meaning of the common good and the goals of a fair society. In the Western moral philosophy, individuals claim different ethical principles, values, and reasons for analyzing and justifying their aims and the rightness of their actions. Deontological, right-based, consequentialist, and virtue ethics – to mention the most influential ethical schools – do not offer equal balance between rights and duties, social and economic interests, public and private life,

individual and society, man and nature. These moral philosophies are based on different ethical principles and values as well as on the conflicting views about nature, human nature, freedom, autonomy, justice, fairness, rationality, utility, well-being, distribution, entitlement and so on. In the last result, their representatives advocate different versions of market capitalism (if they do it at all).

Conflicting moral assessments bring about theoretical and practical tensions and incoherencies in the analysis and justification of economic actions. However, there are a few values which appear to be valid and universalizable beyond the boundaries of nation states, political, cultural and language communities and directly appeal to the global community. We think that freedom and equity, moral autonomy, fairness, individual and social well-being certainly belong to these universalizable sets of values. There is no ethics – moreover, legitimate economic and political designs of society, government, and business enterprises – without serious scrutiny of the scope, rationale, and content of these moral and societal values and of their implementations. Instead of lamenting over cultural imperialism in the sphere of the economy, the most important question is: what can be the Chinese contribution to these common values which proves that the Chinese people consider themselves as a part of global community?

Recently, China becomes interested in its Confucian intellectual heritage. The revival of Confucian tradition is indispensable of questing for common business values in the global economy since this philosophy once put emphasis on the continuity between heaven, earth, and man and endeavored to create harmony in this genuine triadic relationship. (Tucker and Berthong 1998) As it is well-known, this attitude has been almost absent from the Western philosophy for a long time; the relationship between man and nature was not the central part of ethical reflections. Nature was believed to be rather hostile towards mankind therefore it must be subjugated to our convenience. This anthropocentric orientation of the Western philosophy was epitomized by Descartes who wished to regard men as “the masters and possessors of nature.” In the context of the current environmental crisis, the Confucian perspective on man and nature makes us understand that the recognition of the intrinsic value of nature is an important precondition of the well-being of recent and future generations.

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