

Achieving Social and Economic Equality by Unifying Business and Ethics: Adam Smith as the Cause of and Cure for the Separation Thesis

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ABSTRACT Adam Smith's famous argument that self-interested decisions will ultimately improve social welfare seems inconsistent with the social and economic inequality characterizing Smith's time and today. I contend that these inequalities are the result of Smith's failure to explicitly situate the economic man he describes in *The Wealth of Nations* within the broader social context he articulates in *The Theory of the Moral Sentiments*, an omission which has since given rise to the separation thesis, which states that business decisions have no moral content and moral decisions have no business content. In response to this modern-day Adam Smith problem, I integrate Smith's notions of sympathy, intimacy, and justice into a unification thesis that articulates how individuals might balance their self-interested and benevolent motives. By reuniting the discourses of business and ethics, this research may inform contemporary theories of business ethics and provide normative guidance for managers.

Keywords: Adam Smith, benevolence, inequality, self-interest, separation thesis, sympathy

INTRODUCTION

To see that many of our ideas have long roots is important in an era which imagines that everything worthwhile was thought up yesterday. (Werhane, 2006, p. 403)

Almost two and a half centuries ago, Adam Smith (1994) argued that firms are important contributors to the welfare of the societies in which they operate due to the central role they play in the distribution of wealth. Although early economists tended to equate advancements in social welfare with greater *aggregate* utility (Bentham, 1789), because this

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type of utilitarian thinking allows for inequalities that can undermine social, economic, and political stability, scholars have argued more recently that social welfare improves when utility increases (or at least does not decrease) for *all* individuals (Samuelson, 1938) such that the resulting social arrangement reflects some measure of equality (Sen, 1992). Unfortunately, because the decision model adopted by managers of most firms during and since Smith's time has been limited to a very narrow understanding of Smith's thinking, we have yet to realize the broad-based social and economic prosperity that he envisioned.

To date, most explanations of equality have focused on the role played by markets and institutions (Morris and Western, 1999), with Cobb's (2016) as one of only a few studies to both highlight the firm as a major determinant of inequality and develop theory to explain the process by which firms contribute to this end. While laudable for its novel approach, Cobb's (2016) study lacks prescriptive advice as to how managers themselves might combat social and economic inequality via the decisions they make in their roles as agents of the firm. Noting the "tradeoffs and competing claims to resources and outcomes" stemming from the tension between their firms' social and economic goals, Sundaram and Inkpen (2004, p. 370) ask, 'what decision criterion should a manager adopt as a guideline?' I seek to answer this question herein. Yet, rather than merely consider what might enable managers to *mediate* conflicting stakeholder interests (the basis of Sundaram and Inkpen's (2004) question), I intend to propose how managers might actually *serve* those interests in a way that enables them to lead successful firms that contribute to social and economic equality.

I begin by arguing that the general perception that conflict exists among the interests of managers and those who are affected by their decisions is due to the widespread acceptance of the *separation thesis*, or the belief that business decisions have no moral content and moral decisions have no business content (Freeman, 1994). I contend that the genesis of the separation thesis is the claim by neoclassical economists, citing Smith's (1994) *An Inquiry into the Nature and Causes of the Wealth of Nations* (WON), that economic decisions should be made solely on the basis of self-interest, devoid of any ethical concern for others (Friedman, 1970). Notwithstanding the pervasiveness of this perspective, it misinterprets Smith's thought. By viewing WON in the context of Smith's (1976) earlier book, *The Theory of the Moral Sentiments* (TMS), we see that Smith actually viewed business and ethics as two sides of the same coin.

As Werhane (2010, p. 696) notes, 'Adam Smith wrote some 230 years ago that ethics and economics . . . are intricately intertwined'. She argues, therefore, that we must 'reexamine [WON] in light of Smith's moral psychology developed in TMS and his treatment of rights, property and jurisprudence in [*Lectures on Jurisprudence*] (LJ)' (1991, p. 13), as 'rereading Smith . . . forces us to question some traditional assumptions about democratic free enterprise' (2000, p. 196). A central conclusion she draws from all of her writing on Smith is that the prevailing 'managerialist preoccupation with shareholder value is challenged, if not completely refuted, by taking seriously the social character of Smith's complex vision of commerce' (Bevan and Werhane, 2015, p. 327). Echoing Werhane's view, Sen maintains that by 'overlooking everything else that Smith said in his wide-ranging writings and concentrating only on [WON], the father of modern economics is too often made to look like an ideologue. He is transformed into a partisan exponent of an ethics-free view of life which would have horrified Smith' (1993, p. 47).

Given this fuller understanding of Smith, I propose a response to the separation thesis, derived exclusively from his writings, that may contribute to social and economic equality in the way Smith envisioned. Specifically, I seek to fuse the commonalities between WON and TMS, supplemented by the ideas he expressed in LJ (Smith, 1978). In so doing, I avoid treating Smith's works as discrete (Chouliaraki and Fairclough, 2010; Windsor, 2006), as neoclassical economists have tended to do, and instead adopt Suddaby et al.'s (2011) 'blending' strategy, in which I attempt to combine Smith's multiple theoretical approaches into a novel, contextualized model of managerial decision-making. In proposing this *unification thesis* I seek to reunite the discourses of business and ethics by suggesting that managers have a moral duty to balance their motives of self-interest and benevolence by engaging in a sympathetic process that considers the level of intimacy and perceived injustices surrounding their decisions. In this way, I contend that while a misinterpretation of Smith may have been the cause of the separation thesis, a proper integration of his ideas may be the cure.

This research may contribute to the literature in the following ways. First, due to the widespread acceptance of the separation thesis (Freeman, 1994), business ethicists have faced the uphill battle of convincing those who advocate a purely self-interested approach to business (i.e., Jensen, 2002; Sundaram and Inkpen, 2004) that such an over-reliance on WON is unfounded. By employing Smith's own arguments to unify business and ethics, this research may help extend the literatures on stakeholder theory, corporate social responsibility (CSR), political CSR, ethical decision-making, and social enterprise by demonstrating how other-regarding considerations might complement, rather than oppose, pure self-interest. Second, by providing actionable guidelines for managers seeking to merely temper but not reject entirely their self-interested tendencies, the unification thesis I offer allows managers the moral free space to pursue their firms' social *and* economic goals based on the idiosyncratic context in which their decisions are made. If applied broadly, this thesis may reduce (if not eliminate) social and economic inequality at the societal-level. In so doing, this research is sensitive to Sundaram and Inkpen's (2004, p. 370) call for responses to the separation thesis that 'go beyond critiques of the shareholder view to offer a robust alternative theory that is compatible with the naturally occurring incentives, impulses, and imperatives of market- and property rights-based economies in democratic-capitalist societies'. Ultimately, by articulating the important role managers might play in combating social and economic inequality, the unification thesis bolsters the credibility of managers, alongside markets, institutions, and firms, as actors that can improve social welfare.

SOCIAL WELFARE AND EQUALITY

Historically, economists conceptualized social welfare on utilitarian grounds, arguing that whatever social arrangement generates the greatest good for the greatest number is best (Bentham, 1789). Advocates of utilitarian logic believe that the welfare of a society is equivalent to the sum of the individual welfares (or utilities) of each of its members; thus, their objective is the maximization of the overall welfare of *society* without regard to the welfare of *individuals*. Utilitarians are, therefore, agnostic to any concentration of

wealth that may result from individual economic exchanges so long as the net effect of all exchanges is positive.

In response to this lack of concern for individual welfare, scholars have since argued that it is not enough for a social arrangement to serve the interests of society as a whole as such an outcome ignores the relative differences in utilities among individuals. Instead, for the welfare of a society to improve, the system of economic exchange must result in *all* parties being better off (or at least no worse off) than they would be in its absence (Leontief, 1966; Samuelson, 1938). This dual focus on both the society *and* the individual is important in a conversation about equality given that simply maximizing the sum of total utilities across society ‘leaves no room for distributional considerations/questions of inequality [within that society]’ (White, 2005, p. 161). As concern for individual welfare wanes, the ends valued in a society become concentrated, which often results in dissent on the part of the disadvantaged masses, thereby undermining social, economic, and political stability (Alesina and Perotti, 1996; Furman and Stiglitz, 1998; Nishioka, 2010). It is for this reason that ‘every normative theory of social arrangement that has at all stood the test of time seems to demand equality’ (Sen, 1992, p. 12).

Self-Interest as a Driver of Inequality

The fact that firms play an important role distributing society’s wealth (Cobb, 2016) might suggest that society has tended toward equality since the onset of the Industrial Revolution that gave rise to the modern corporation. Indeed, such was a main premise of Adam Smith. In seeking an explanation for what he viewed to be a societal-wide improvement in welfare in 18th century Scotland, Smith observed that the merchants at the centre of this wave of development were not intending this outcome, but instead acting only out of *self-interest*, which Smith equates with a concern for one’s individual well-being. He writes, in *WON*,

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (1994, p. 15).

In an attempt to explain the mechanism linking individual and social welfare, Smith argues,

every individual . . . generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interests he frequently promotes that of society more effectually than when he really intends to promote it. (1994, pp. 484–5)

What is most important about these famous passages is not Smith’s claim that individuals do not consider others’ interests in their economic endeavours, but that the

intentional pursuit of self-interest is the best way to serve society. In fact, Smith is largely dismissive of any interference with the pursuit of self-interest in WON. He writes, ‘to prohibit a great people, however, from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind’ (1994, p. 629). Though Smith is somewhat vague in WON as to what these ‘sacred’ rights are, he elaborates on them in LJ:

A man may be injured in his person in two ways also, either by 1st, in killing, wounding, or maiming him, or any way hurting his body, or secondly by restraining his liberty . . . a man is injured in his reputation when one endeavors to bring his character below what is the common standard amongst men (1978, pp. 8–9).

Freedoms from bodily harm, restraints to liberty, and injury to one’s reputation, or what Smith (1978) refers to as *perfect rights*, are important to Smith as they provide the conditions for *justice*, which he equates with fair play and the avoidance of harm.

At the time Smith wrote WON, his proposition that ‘in a free exchange, both parties to a transaction could gain, . . . [that] economic life could be a non-zero-sum game, . . . was almost entirely new in the history of civil society’ (Bell, 1973, p. 303). Due perhaps to the parsimony of Smith’s argument, as well as its appeal to our inner Hobbesian selves, it received high acclaim in his day and has since been widely accepted as ‘doctrine’ (Samuelson, 1961, p. 39), forming the bedrock of modern-day capitalism. Unfortunately, despite the global gravitation toward free markets fuelled by self-interest over the past two and a half centuries (Pryor, 2010), empirical support for their ability to create the type of broad-based social welfare Smith claimed is lacking.

In Smith’s day, Glasgow was a thriving hub of global commerce due to its central position in the Atlantic tobacco trade, with ‘almost half of the tobacco coming into Europe distributed through Glasgow’ (Merchant City, 2015, p. 3). As a result, not only did ‘the Scottish merchants of Glasgow dominate the tobacco trade, importing more tobacco than even London’ (Brown, 2010, p. 17), but they were also among the wealthiest merchants in Europe (Merchant City, 2015). Despite Glasgow’s wealth gains, driven by self-interested merchants who benefited greatly from trade with the Americas and Europe, the interests of society within Scotland and across Great Britain were not quite as well-served as Smith’s WON thesis might have suggested.

For example, although average incomes rose throughout all of Great Britain throughout the Industrial Revolution (Lindert, 2000; Milanovic et al., 2011), it was not until 1820, 30 years after Smith’s death, that wages for England’s working class advanced beyond their mid-1700s level. Moreover, when wages are adjusted to account for increasing prices and costs of living, earnings for all labor groups actually declined from 1755 through 1781 (Lindert, 2000; Milanovic et al., 2011), the very time during which Smith was writing WON. Interestingly, Allen (2009) finds that while these wages were declining, profits were doubling, suggesting that British capitalists (including Glasgow’s tobacco merchants) were gaining at the expense of the working class. Coupled with more than 600 years of virtually stagnant purchasing power (Clark, 2005), which

disproportionately affects the poor, 18th century Scotland could hardly be characterized as a model of social and economic equality.

Support for Smith's WON thesis is similarly weak in the American colonies. While average incomes rose throughout the Industrial Revolution, wealth became highly concentrated, particularly in the tobacco-producing American South (Jones, 1980; Lindert, 2000; Lindert and Williamson, 2013; Osberg and Siddiq, 1988). In fact, in 1774, two years prior to the publication of WON, 95 per cent of all wealth was held by the top 20 per cent of wealth-holders, a trend which did not abate for at least the next century (Shammas, 1993). The fact that tobacco production dominated the American economy (Smithsonian Institute, 2015) and served as 'the nucleus of our contemporary world economic order' (Inikori, 1992, p. 151) is important given that it was fuelled by the forced labour of millions of African slaves (Brown, 2010). Because of the coercive nature of slavery, it has real implications on the input (self-interest) and output (social welfare/equality) of Smith's model. Consistent with his WON thesis, slave owners were 'wealth-maximizers in deciding what amount of labor to demand from their slaves' (Barzel, 1977, p. 87), often resorting to force, which was an efficient means for increasing effort (Acemoglu and Wolitzky, 2011; Fogel and Engerman, 1974). By acting solely in their self-interests, American slave owners appear to have heeded Smith's advice and grew 'immensely rich' (Smithsonian Institute, 2015) in the process, enjoying far greater profits than they would have in the absence of slavery (Fogel and Engerman, 1974; Williams, 1944). The slaves, on the other hand, were left with negative economic wealth, equivalent to the price of their freedom (Osberg and Siddiq, 1988). Moreover, because slaves were considered property, their owners often used them as collateral to secure loans from Scottish banks, owned by the very tobacco lords with whom they traded, in order to enlarge their businesses. Thus, the slaves themselves were used to further entrench their unequal position in society (Brown, 2010).

Unfortunately, the inequalities prevalent in the 18th century have persisted to modern times. Indeed, evidence suggests that in the United States, for example, which remains one of the world's most strident advocates of free market capitalism (Pryor, 2010), economic inequality has actually increased since Smith's day. As Lindert and Williamson (2013, p. 755) find, in colonial America 'the richest 1 percent had only 7.1 percent of total income, and the Gini coefficient was 0.437 ... Compare colonial American inequality with that of the United States today, where almost 20 percent of total income accrues to the top 1 percent, and where the Gini coefficient is about 0.5.'. The similarities between the 18th and 21st centuries, do not stop at economic inequality. Despite the global abolition of slavery that has occurred since Smith's writings, 'at least 12.3 million people continue to work under coercion in the underground and illegal economy ... Most of them are forced to work in abusive conditions and subjected to serious health and safety hazards, with little or no pay' (Andrees and Besler, 2009, p. 1). Of these 12.3 million individuals, the United Nations' International Labor Organization estimates that 80 per cent (9.8 million) are enslaved in the private economy, with profits serving as 'the main motivating factor' (Andrees and Besler, 2009, p. 2). In fact, empirical evidence suggests that in aggregate, employers efforts' to minimize labour costs by engaging in coercive labour practices amounted to US\$44.3 billion per year as of 2005 (Besler, 2005).

In sum, it seems that although many societies which have crafted macro-economic policies promoting the pursuit of self-interest have experienced a certain measure of *aggregate* prosperity over the past two and a half centuries, whether they have enjoyed the type of broad-based social and economic equality Smith envisioned is equivocal. This reality begs the question, how can Smith, a moral philosopher by trade, have been so wrong about capitalism to assume that a system driven by self-interest alone would promote the welfare of society-at-large?

Benevolence as a Means toward Equality

The short answer to the above question is that capitalism as most understand it is not reflective of the capitalism Smith intended. Due to a very narrow focus on a select few passages from *WON*, neoclassical economists have propagated a view of Smith that does not accurately reflect the depth and complexity of his thought. For starters, in addition to perfect rights, Smith also believed that *imperfect rights*, while not legally enforceable, nevertheless ought to be protected:

Imperfect rights are those which correspond to those duties which ought to be performed by us by others but which we have not title to compel them to perform; they having it entirely in their power to perform them or not. Thus, a man of bright parts or remarkable learning is deserving of praise, but we have no power to compel any one to give it him. A beggar is an object of our charity and may be said to have a right to demand it; but when we use the word right in this way it is not in a proper but a metaphorical sense. The common way in which we understand the word right, is the same as what we have called a perfect right, and is that which relates to commutative justice. Imperfect rights, again, refer to distributive justice. The former are the rights which we are to consider, the latter not belonging properly to jurisprudence, but rather to a system of morals as they do not fall under the jurisdiction of the laws. (1978, p. 9)

This distinction is important as it reinforces the view Smith takes in *WON* that justice is both about fair play *and* fair outcomes. Specifically, Smith (1994, p. 766) argues that even though ‘wherever there is great property there is great inequality’, the laws of justice prevent a redistribution of that property since taking from one to give to another would not be ‘fair’. Yet, despite Smith’s partiality toward commutative justice, he is not blind to the importance of some measure of equality in terms of the distribution. As Smith further argues in *WON*,

Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce

of their own labour as to be themselves tolerably well fed, clothed and lodged. (1994, p. 90)

By taking a very broad view of whose interests must be served and how in order to attain societal-level welfare, Smith clearly does *not* take a utilitarian view in WON as some have suggested (see Werhane (1991) for a fuller discussion). Instead, 'Smith understands that stability depends on adherence to the rules of justice and a not too obscenely unequal distribution of consumption' (Oslington, 2012, p. 434).

Interestingly, neoclassical economists have historically focused on Smith's WON argument in favour of self-interest, ignoring his recognition of the negative impact unchecked self-interest could have on distributive justice. Seventeen years before the publication of WON, Smith (1976) elaborated on this issue in TMS, arguing that individuals are free to pursue their own interests *except* when their behaviour would harm others, in which case their behaviour ought to be motivated by the affections of 'generosity, humanity, kindness, compassion, mutual friendship and esteem', or what Smith (1994, p. 38) collectively refers to as *benevolence*. He writes, '[it] is not that self-love can never be the motive of a virtuous action, but that the benevolent principle appears . . . to want its due degree of strength' (1976, p. 304). Although Smith leaves the decision regarding motives up to individual judgment, he argues that this decision is ultimately a function of our *sympathy*, or 'our fellow-feeling with any passion whatever' (Smith, 1976, p. 10). Smith argues that the ability to sympathize enables the perception and internalization of the sentiments of others; to have 'literally, a feeling that is a fellow of [another's] feeling' (Wilson and Dixon, 2006, p. 267). According to Smith, only once individuals internalize their 'fellows' feelings' can they decide how to act toward them.

To facilitate the sympathetic process, Smith (1976, p. 130) introduces the *impartial spectator*, or 'the man within the breast, the great judge and arbiter of [our] conduct'. Smith argues that because people are not naturally inclined to act in others' interests, they tend not to consider and often cannot appreciate the impact their actions may have on others. As such, Smith maintains that in order to properly assess the morality of our behaviour,

we must change our position. We must view [the likely effect of our actions], neither from our own place nor yet from his, neither with our own eyes nor yet with his, but from the place and with the eyes of a third person, who has no particular connexion with either, and who judges with impartiality between us. (1976, pp. 135–6)

In this sense, the impartial spectator is a 'transcendent source of knowledge and truth' against which one's actions can be objectively evaluated *a priori* (Forman-Barzilai, 2010, p. 16), thereby enabling one to choose between acting out of self-interest or benevolence (Davenport, 2008).

Although Smith argued that individuals have a moral duty to behave with others' interests in mind, he believed that there was an 'order in which individuals are recommended to our beneficence' (1976, p. 227) and that this 'order' affects one's ability to sympathize with them. He argues,

every man . . . is first and principally recommended to his own care . . . After himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections. They are naturally and usually the persons upon whose happiness or misery his conduct must have the greatest influence. He is more habituated to sympathize with them. He knows better how every thing is likely to affect them, and his sympathy with them is more precise and determinate than it can be with the greater part of other people. It approaches nearer, in short, to what he feels for himself . . . the affection gradually diminishes as the relation grows more and more remote. (1976, p. 219).

Thus, for Smith, tempering one's self-interest in favour of benevolence to ensure just outcomes is only possible when interacting with individuals from within one's inner sphere of intimacy. This view constitutes what Nieli (1986, p. 620) has termed Smith's 'spheres of human intimacy . . . which helps to explain [Smith's] overall view of man and of the sorts of relationships in which love and benevolence, as opposed to self-interest and acquisitiveness, might be expected to dominate'.

THE SEPARATION THESIS

Despite this more inclusive view of Smith than neoclassical economists have historically taken, it is noteworthy that while Smith makes explicit mention of self-interest in TMS, he makes no mention of benevolence or sympathy in WON. The editors of TMS (Raphael and Macfie, 1976) contend that this omission is purposeful given that in WON Smith was merely abstracting the 'economic man' from the comprehensive social system he previously expressed in TMS, with which Smith assumed would serve as the context in which WON would be read. Nevertheless, Smith's seemingly competing claims that social welfare was achieved predominantly by benevolence in TMS and exclusively by self-interest in WON became known as the *Adam Smith problem* within months of the publication of WON and spawned a centuries-old debate over whether and how TMS and WON are reconcilable (Montes, 2003).

As Wilson and Dixon note, most scholars today have concluded that 'the old Adam Smith Problem is no longer tenable' (2006, p. 251) if one understands the context-dependent nature of sympathy. Specifically, they observe that 'behaviour motivated by self-interest dominates the discourse of WON . . . not because Smith (sometime between TMS and WON) has changed his opinion on how people are motivated. It is rather that WON (unlike TMS) is not concerned with situations in which a "benevolent" disposition is to be expected' (Wilson and Dixon, 2006, p. 270). Notwithstanding this rather recent, enlightened perspective of Smith's argument, I contend that the immediacy and long-lasting nature of the debate over the Adam Smith problem has left its market on the field of economics. Due to the belief by many of Smith's contemporaries that he was, in WON, promoting an entirely amoral economic system that would benefit all, a form of capitalism grounded exclusively in self-interest, responsible (at least in part) for the social and economic inequalities noted above, quickly took root and has remained firmly in place as the primary organizing principle of the global economy (Pryor, 2010).

This belief that business decisions have no moral content and moral decisions have no business content has since come to be known as the *separation thesis* (Freeman, 1994). According to Wicks (1996, p. 90), 'the implications of the separation thesis are significant. The conclusion that inevitably follows from it is that there are no meaningful connections between business and ethics, nor could there be any. Business is business and ethics is ethics and never the twain shall meet'. As a result, business ethicists have attempted to offer an alternative to the impersonal, self-interested, rational ways of thinking about economic activity (Freeman, 1994). Unfortunately, despite the establishment of business ethics as a well-accepted scholarly discipline, Wicks (1996) notes that its supporters have had little success bridging the gap between its constituent parts due to the adversarial stance they have taken toward theories based on self-interest. If, as I contend, the separation thesis is the modern-day manifestation of the centuries-old Adam Smith problem and can be traced back to Smith's failure to explicitly link the ethical and other-regarding concerns of TMS to the self-interested model of economic behaviour he postulates in WON, then perhaps a more effective response to the separation thesis is one that seeks to unify Smith's ideas. I endeavour to develop such a response, grounded largely in Smith's notion of sympathy, below.

UNIFYING BUSINESS AND ETHICS

As Smith rightly notes, individuals are able to sympathize best with those with whom they share geographic and emotional bonds. Thus, even if we want to consider how our decisions affect the interests of others, those evaluations are only accurate for individuals residing within our inner spheres of intimacy. When considering individuals at a distance, our sympathies are increasingly less 'precise' (Smith, 1976, p. 219), to the point at which we are entirely unable to determine how our actions might impact them. For this reason, Smith argues in TMS,

all men, even those at the greatest distance, are no doubt entitled to our good wishes, and our good wishes we naturally give them. But if, notwithstanding, they should be unfortunate, to give ourselves any anxiety upon that account, seems to be no part of our duty. That we should be but little interested, therefore, in the fortune of those whom we can neither serve nor hurt, and who are in every respect so very remote from us, seems wisely ordered by Nature. (1976, p. 140)

This logic suggests that we have a great degree of latitude with regard to our moral treatment of others (i.e., we are free to do kind things for others, but are not obligated to do so). Due to the subjective nature of imperfect rights, a sympathetic determination of the type of behaviour that might further those of others is dependent on our relationship to them (i.e., we can know what others might consider to be 'kind' the better we know them). At the same time, Smith argues that we are duty-bound to avoid bodily harming, restraining the liberty of, and injuring the reputation of another. Because these perfect rights are more objective and often constituted in law, our sympathetic capacity is less dependent on intimacy where they are concerned (i.e., we are generally able to

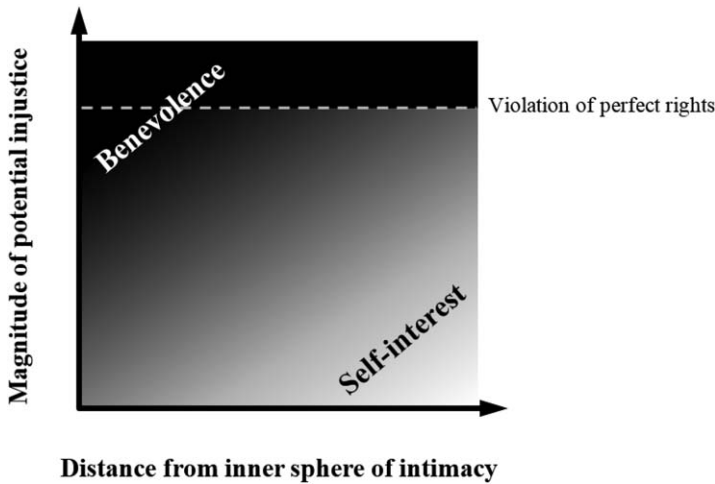


Figure 1. A Smithian model of managerial decision-making

Note: Darker shading indicates a greater emphasis by managers on benevolence; lighter shading indicates a greater emphasis on self-interest.

determine if our behaviour will injure others regardless of our relationship to them). Thus, while Smithian sympathy allows for a progressively greater reliance on self-interest the more distant the objects of our behaviour, any self-interested behaviour that would violate the perfect rights of even the most remote actors must still be tempered by benevolence until the likelihood of such a violation is mitigated.

In sum, if we accept Smith's articulation of sympathy as the ability to evaluate *a priori* how our behaviour will affect others, we see that it can help us navigate the moral free space we face when making decisions and with which business ethicists are chiefly concerned. The fact that our sympathetic capacity is hindered by emotional and geographic distance does not mean that we are unable to assess whether our behaviour will injure others; rather, it suggests only that we might think twice before trying to promote the imperfect rights of those members of society who we know the least about, focusing instead on protecting the perfect rights of all and acting progressively more benevolently toward those with whom we share more intimate bonds. Taken together, it seems that although Smith may be the unwitting cause of the separation thesis, his arguments can be integrated into a formal *unification thesis* that may reunite the discourses of business and ethics in the way he envisioned (see Figure 1).

Unification thesis: Managers ought to regulate their competing motives of self-interest and benevolence by considering:

[1] their emotional and geographic distance from those who are likely to be affected by their actions, such that the more intimate the managers' relationships to those who their actions are likely to affect, the more their actions ought to be motivated by benevolence, whereas the less intimate the managers' relationships to those who their actions are likely to affect, the more their actions ought to be motivated by self-interest;

[2] the magnitude of any potential injustices their actions are likely to have on others, such that the more harm managers' actions are likely to have on others, the more their actions ought to be motivated by benevolence, and the less harm managers' actions are likely to have on others, the more their actions ought to be motivated by self-interest;

[3] whether their actions are likely to violate the perfect rights of others, such that if managers perceive their actions are likely to violate the perfect rights of others, any self-interest motivating their actions ought to be tempered by benevolence until the potential for any such violations is eliminated.

DISCUSSION

I have argued herein that although firms have long-been argued to be the vehicles by which broad-based social welfare is achieved, evidence in support of their generation of utilities that do not unduly favour some members of society over others throughout the past quarter of a millennium is equivocal. Indeed, much of the social and economic inequality that existed at the onset of the Industrial Revolution persists to this day, which I argue is due to the adoption of the separation thesis that Adam Smith unwittingly gave rise to when he mistakenly assumed WON would be understood in the context of TMS. In response to this modern-day Adam Smith problem, the field of business ethics emerged in an attempt to establish a moral basis for economic activity, though it has unfortunately failed to fully bridge the divide between business and ethics. Given that Smith is arguably the father of modern day capitalism *and* business ethics, I have attempted to leverage his own ideas in order to reunite these two seemingly irreconcilable discourses. I discuss the implications the resulting unification thesis may have for theory and practice below.

Implications for Theory

By blending Smith's arguments from moral philosophy (TMS), political economy (WON), and jurisprudence (LJ), this research seeks to inject meaningful ideas from other disciplines into the business ethics literature, which Birkinshaw et al. (2014) maintain is essential to moving management theory forward. Yet, in order to fully capitalize on this promise, Suddaby et al. (2011) argue that rather than merely 'importing' ideas from outside disciplines, those ideas must be integrated with theory by adapting them to the idiosyncratic nature of the contexts in which managerial decisions are made. Thus, I review the leading theories of business ethics to demonstrate how my Smithian unification thesis may extend current understandings of ethical business decision-making.

Stakeholder theory. One of the most prominent theories in the business ethics field is stakeholder theory, which suggests 'that managers should make decisions so as to take account of the interests of all the stakeholders in a firm . . . [where] stakeholders include all individuals or groups who can substantially affect the welfare of the firm – not only the financial claimants, but also employees, customers, communities, and governmental officials'

(Jensen, 2002, p. 236). Though the idea that firms have non-owner stakeholders to whom managers are accountable is 'commonplace' in business ethics (Donaldson and Preston, 1995, p. 65), scholars from other disciplines, most notably finance (i.e., Jensen, 2002) and strategy (i.e., Sundaram and Inkpen, 2004), contend that management's only responsibility is to shareholders. Thus, 'the whole point of the stakeholder approach is to deny the separation thesis' (Freeman, 1994, p. 412), by presenting a direct response to 'the 'management serving the shareowners' theory' (Donaldson and Preston, 1995, p. 88).

There have been two main approaches in stakeholder theory research over the years: normative, which addresses managers' moral obligations to consider stakeholders vs. stockholders, and instrumental, which addresses the relative benefits to the firm from adopting a stakeholder vs. stockholder focus (Agle and Mitchell, 2008). At issue in the first approach is who matters to the firm. In one of the most widely-accepted models of stakeholder salience, Mitchell et al. (1997) argue that managers should prioritize stakeholders based on their power to influence the firm as well as the urgency and legitimacy of their claims on it. Mitchell et al. (1997) add that because stakeholder evaluations are perceptual, they may be influenced by the manager's values. Pursuant to this possibility, Agle et al. (1999) hypothesize that self-interested managers are more likely to prioritize the claims of shareholders, whereas benevolent managers are more likely to prioritize the claims of non-owner stakeholders. Though these authors find only limited evidence in support of their hypotheses, their results suggest that benevolent managers may have a broader view of who matters to the firm.

While the notion that managers should act in ways that further their own interests, but not necessarily at the expense of those of other stakeholders may seem an effective response to the separation thesis, it is limited in that it allows for benevolent action only under one of two conditions: [1] when a powerful stakeholder has a legitimate, urgent claim on the firm and/or [2] when a manager is predisposed to this virtue. Regarding the first condition, prioritizing stakeholders based on the degree to which their claims may affect the interests of the firm (and, by extension, the manager) is inherently self-interested and ignores the possibility that managers might choose to act benevolently toward stakeholders because they share intimate ties, even if doing so comes at the expense of their own interests. Regarding the second condition, Smith would find a predisposition to act benevolently out of hand to be an 'injustice' (1976, p. 270) to one's self as it denies 'the free use of [one's] own person' (1978, p. 8). Instead, Smith suggests that both benevolence and self-interest are virtuous motives and that it is only by sympathizing that one should be prioritized over the other.

Taken together, normative stakeholder theory may benefit from the logic underpinning the Smithian unification thesis presented above. By integrating Mitchell et al.'s (1997) dimensions of power, urgency, and legitimacy with Smith's notions of intimacy and justice, we might arrive at an improved model of stakeholder salience that more accurately explains in whose interests managers ought to act. In a revised approach, managers might consider not merely serving influential stakeholders out of their own self-interest, as stakeholder theory currently suggests, but also powerless stakeholders with otherwise trivial and illegitimate claims out of a moral obligation to protect and promote their perfect and (where intimate ties are present) imperfect rights. Moreover, although Agle et al. (1999, p. 508) note that the legitimacy of one's claim on a firm, is

'based upon, for example, contract, exchange, legal title, legal right, moral right, at-risk status, or moral interest in the harms and benefits generated by company actions', they do not explain how managers are to make such moral judgments *a priori*. By leveraging sympathy as the mechanism by which stakeholder salience is assessed, we might be better able to articulate the process by which managers can evaluate potential injustices.

Interestingly, some normative stakeholder research has leveraged Smith's own concepts in order to inform stakeholder management. For example, Brown and Forster (2013) discuss how Smith's notions of justice and perfect rights can enable firms to manage the trade-offs associated with socially-responsible initiatives. Specifically, the authors contend that stakeholder interests can be prioritized based on the nature of the consequences a given initiative might have. Unfortunately, although Brown and Forster (2013) offer a thoughtful application of Smith, they do not offer any formalized guidelines for decision-making. The extension to normative stakeholder theory proposed above may, therefore, help more firmly establish how Smith's ideas might be used in practice.

The instrumental stream of stakeholder theory examines whether firms will benefit more from a stakeholder or stockholder approach, in what is commonly referred to as corporate social performance research (McWilliams et al., 2006). As Agle and Mitchell (2008, p. 154) conclude from their comprehensive review, 'a primary and consistent finding within this strand of research – that with or without a stakeholder focus, corporate performance is very much the same – suggests room for stakeholder focused management that does no harm to stockholder interests while also benefiting a larger constituency'. Adding an important nuance to this general conclusion, Hillman and Keim (2001) examine whether all stakeholders must be 'managed' in the same way. Building off the stakeholder salience model, these authors find evidence suggesting that decisions benefitting stakeholders who 'bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in [the] firm' (primary stakeholders) will increase shareholder value, whereas decisions benefitting stakeholders who lack exchange-based ties to the firm (secondary stakeholders) will decrease shareholder value (Hillman and Keim, 2001, p. 126). While Hillman and Keim (2001, p. 136) stop short of advising managers to ignore the interests of secondary stakeholders, they contend that acting in their interests 'appears to come at the cost of forgone opportunities to increase shareholder value ... [and] may not lead to the same competitive value creation prospects as [acting in the interest of primary stakeholders]'.

At first glance, research in this stream may appear, in part, consistent with the unification thesis given that it suggests that managers can serve their own interests and those of others, if only their primary stakeholders. Yet, the failure by scholars in this area to consider the negative effects managerial decisions can have on secondary stakeholders is problematic. As with the literature on normative stakeholder theory, this literature ignores the potential injustices experienced by stakeholders whose interests are not factored into the decision-making process. While such harms may not always rise to the level of perfect rights violations (such as the 'harm' instrumental stakeholder theorists argue is done to stockholders when profits are not maximized), that possibility cannot be discounted.

As captured in the unification thesis, the avoidance of bodily injury, restraints to liberty, and injury to reputation supersede the pursuit of self-interest. Regardless of

whether or not attending to the interests of secondary stakeholders furthers the interests of managers and primary stakeholders, their perfect and imperfect rights cannot be ignored. Thus, rather than simply dichotomizing stakeholders as ‘primary’ or ‘secondary’ and ignoring injustices that result when one’s interests are prioritized over the other, instrumental stakeholder theory might be usefully extended by incorporating Smith’s notions of intimacy, sympathy, and justice. Specifically, by placing their stakeholders on a continuum based on their emotional and geographic proximity, managers might gain a more fine-grained appreciation of whose imperfect rights they have a moral obligation to advance. By then employing their sympathetic capabilities, managers might assess the likelihood that a given action violates any stakeholder’s perfect rights so that they may, in turn, act with greater benevolence toward them.

CSR. The CSR literature is concerned with ‘how the social responsibility of business firms should be defined and whether it is possible to integrate ethical concerns and efficient management within a general approach’ (Scherer and Palazzo, 2007, p. 1096). Most research in this area has adopted either an empirical/descriptive approach, in order ‘to provide a distinctive view of a corporation’s overall efforts toward satisfying its obligations to society’ (Wartick and Cochran, 1985, p. 758), or a normative approach, in order ‘to define principles or criteria that will help examine, justify, or improve the moral quality of business behavior in market societies’ (Scherer and Palazzo, 2007, p. 1101). Based on their review, Scherer and Palazzo (2007, p. 1099) conclude that the questions empirical/descriptive research intends to answer ‘are integrated within the so-called corporate social performance models’, which I have addressed above. The normative stream, however, is more distinct, with research tending to focus on four themes: the virtues that guide, the duties that lead to, the consequences that ensue from, and the social contracts that establish the boundaries of moral behaviour (Scherer and Palazzo, 2007). Rather than discussing all four approaches separately, I focus on the latter (social contracts) given its implicit consideration of the other three (virtues, duties, and consequences).

Rooted in the seminal thinking of philosophers such as Hobbes et al. (1991), Rawls (1971), Donaldson and Dunfee (1999) developed integrative social contract theory (ISCT) to explain how members of society agree to macro-level contracts, which outline the norms by which individuals agree to behave, and micro-level contracts, which refer to the specific agreements they make on the basis of those norms. By establishing both types of contracts, Donaldson and Dunfee (1999, p. 27) claim that managers can agree to morally-acceptable parameters of behaviour, or what they call an ‘economic ethics’. Donaldson and Dunfee (1999, p. 47) purposely exclude ethical virtues in their theory, arguing that a strength of ISCT is that it reaches ‘beyond the generality of . . . virtue ethics to allow a more detailed normative assessment of particular ethical problems in business’.

Yet, as Anscombe (1958) has long-maintained, the absence of virtues is a main limitation of social contract theories. She argues that by relegating notions of right and wrong to social contracts, these theories succeed in prescribing how individuals arrive at and adhere to communally agreeable ends, but fail at ensuring the means by which they are derived are moral. For Anscombe (1958), it is only when morality is established in the human character, by way of their innate ethical virtues, that intentionally moral action can arise. She therefore advocates a revival of the type of virtue ethics developed by

ancient philosophers (i.e., Aristotle, Socrates) and which McCloskey (2008) contends was only last advanced in a serious way by Adam Smith. As Smith writes in TMS,

concern for our own happiness recommends to us the virtue of prudence; concern for that of other people, the virtues of justice and beneficence; of which, the one restrains us from hurting, the other prompts us to promote that happiness. Independent of any regard either to what are, or to what ought to be, or to what upon a certain condition would be, the sentiments of other people, the first of those three virtues is originally recommended to us by our selfish, the other two by our benevolent affections. (1976, p. 262)

Although Smith acknowledges other virtues, namely love and courage, he argues that ‘the man who acts according to the rules of perfect prudence, of strict justice, and of proper benevolence, may be said to be perfectly virtuous’ (1976, p. 237). For Smith, this ‘triad’ reflects the most important virtues upon which any good and ordered society must rest (McCloskey, 2008, p. 50).

Given Donaldson and Dunfee’s (1999) conceptualization of the firm as both an economic (i.e., self-interested) *and* social (i.e., benevolent) actor responsible, in part, for contributing to social justice, which they identify as a ‘necessary social good’ (1999, p. 121), it seems that ISCT is consistent with Smith’s understanding of economic life. Thus, integrating Smith’s triad of virtues into ISCT would not only respond to Anscombe’s (1958) concerns by ensuring that the motivational drivers from which social contracts derive are moral, but also more fully deliver on Donaldson and Dunfee’s (1999) promise to develop a truly ‘ethical’ economic theory.

In terms of moral duties and consequences, a cornerstone of ISCT is that members of a just society have a moral obligation (i.e., duty) to ensure that the social contracts to which they agree do not violate hypernorms (i.e., consequences), which they define as ‘universal principles . . . recognized . . . as key limiters on moral free space’ (1999, p. 49). Although Donaldson and Dunfee (1999) provide numerous examples of hypernorm violations (i.e., child labour), they are admittedly silent on how individuals might determine whether a given action would be deemed by society as within (or not) the allowable moral free space. While Donaldson and Dunfee suggest that hypernorms ‘must emanate from a source that speaks with univocal authority’ and that ‘such a source would need to constitute a second-order moral perspective’ (1999, p. 50), or what they refer to as a ‘view from nowhere’ (1999, p. 17), they do not prescribe precisely how this source/perspective/view would enable individuals to avoid such violations. Instead, they argue simply that ‘the importance of [hypernorms] and their role within ISCT is sufficient to allow for some ambiguity on their specification and identification’ (1999, p. 52).

Here again, the unification thesis may help bolster ISCT. Smith recognized that

[man’s] own passions are very apt to mislead him; sometimes to drive him and sometimes to seduce him to violate all the rules which he himself, in all his sober and cool hours, approves of. The most perfect knowledge, if it is not supported by the most perfect self-command, will not always enable him to do his duty. (1976, p. 237)

Smith therefore introduces the impartial spectator (analogous to Donaldson and Dunfee's 'second-order moral perspective' or 'view from nowhere') to regulate the conflict between self-interest and benevolence. In this way, Smith, like Donaldson and Dunfee (1999), recognizes the importance of limits on moral free space in order to ensure justice. Unlike Donaldson and Dunfee (1999), however, Smith articulates the mechanism by which members of society can exercise command over their motives in order to uphold their moral duty to ensure fair play and avoid positive harm to others. Thus, the unification thesis can complement ISCT by articulating the factors managers ought to consider (represented by the axes in Figure 1) when arriving at morally agreeable macro- and micro-level contracts.

Political CSR. According to Scherer et al. (2016, p. 273), 'the literature on corporate social responsibility (CSR) has taken a "political turn". The focus has shifted towards how firms shape their institutional environment, often driven by a concern for the public good that goes beyond selfish calculations of economic actors'. The reason for this shift, they argue, is that 'scholars in CSR did not sufficiently consider the impact of globalization' (2016, p. 278) until after the fall of the Berlin Wall, which brought about the weakening of institutions and governments in relation to increasingly globalized firms. In response, proponents of political CSR advocate a 'new approach' to business that accounts for the firm's 'new role' as a political actor (Scherer and Palazzo, 2007, p. 1096).

Political CSR research seeks to answer many questions across many different literatures (see Scherer et al. (2016) for a comprehensive review), but has generally focused on a firm's decision to support social order by filling the institutional voids brought about by globalization. A main conclusion from this research is that whether and how to fill such voids is a matter of perspective. While political CSR action is (ideally) morally-intentioned, the manner in which it is approached and implemented is subject to the power and biases of the actor. According to Khan et al. (2007), political CSR tends to be initiated by powerful firms with little knowledge of the contexts in which they seek to do good and, thus, are simply unable to understand the complexities of the problems brought about by the neglect of weak local governments. As such, they often make assumptions regarding the moral necessity and legitimacy of the values and practices that will solve these problems, which often results in unintended negative consequences, even amid the otherwise successful implementation of political initiatives.

As Smith argued, it is increasingly difficult to understand what will enhance or detract from the happiness of others as one's emotional and geographical distance to them grows. Thus, when managers decide to engage in institution-building, particularly in far-shore locations, they are unlikely to truly understand what will improve social welfare in those contexts. This inability to sympathize is often evident when, for example, US-based firms attempt (unsuccessfully) to transfer and apply Western institutional templates to developing country problems (Khan et al., 2007).

For this reason, the political CSR literature could benefit from an infusion of the sympathetic process captured in the unification thesis. In order to improve the problem-solution fit, managers undertaking a political role should begin by considering their emotional and geographic proximity to those whose perfect and/or imperfect rights

they intend to serve. In the absence of intimate connections, managers should *a priori* enlist the perspectives of individuals from the inner spheres of intimacy of those in need so that a more accurate assessment of those needs, as well as the effects (intended or otherwise) any solutions designed to meet them might have, can be made. By sympathizing in this way, managers may better understand the problems they seek to remediate and, in turn, implement solutions to them that better serve the welfare of society.

Ethical decision-making. Ethical decision-making was long-believed to be a linear process by which individuals determine how to respond to moral dilemmas. According to this view, ethical decisions flow from recognizing a moral issue, to making a moral judgment about it, to establishing moral intent, to acting on a moral concern, with each stage contingent upon various individual, situational, and environmental factors (Jones, 1991). While early studies aided our understanding of the decision-making process (Dubinsky and Loken, 1989; Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Trevino, 1986), they ignored any consideration of the issue itself, which according to Jones (1991, p. 391), implies 'that individuals will decide and behave in the same manner regardless of the nature of the moral issue involved'. In response, Jones (1991) proposed six characteristics – magnitude of consequences, probability of effects, concentration of effects, temporal immediacy, social consensus, and proximity – that reflect the *moral intensity* of an ethical dilemma and, in turn, affect decision-making at each stage of the process. Since the publication of Jones' (1991) issue-contingent model, his moral intensity construct has been subjected to significant empirical scrutiny and is generally viewed as an important component of ethical decision-making (McMahon and Harvey, 2006, 2007).

Despite the perceived novelty of Jones' (1991) approach, it could be usefully extended by the logic laid out in the unification thesis. While Jones (1991) provides a comprehensive list of factors that might affect the moral intensity of an ethical dilemma, he fails to specify with any precision how an individual might actually assess them, which is surprising given that the adjudication of ethical dilemmas is dependent upon understanding the harms that might result from potential actions. For example, Jones (1991) although does argue that social consensus should be reached before acting, other than suggesting that managers might consider the legality of an act (a metric he admits is ambiguous), he is silent on how such consensus might be reached. As noted above, Smith argued that prior to taking action, we ought to conduct an impartial evaluation of the effect our action might have on others. By putting ourselves 'in the situation of the other, . . . to bring home . . . every little circumstance of distress which can possibly occur to the sufferer . . . with all its minutest incidents' (Smith, 1976, p. 21), the sympathetic process highlighted in the unification thesis may provide the mechanism by which managers might ascertain the types of behaviours to which society might consent when faced with ethical dilemmas.

In support of the potential for extending the ethical decision-making literature in this way, Szmigin and Rutherford (2013) propose the Impartial Spectator Test (IST) in response to the growing inequality spawned by capitalism and the consequences it has for social and economic stability. In an effort to provide decision-makers with 'an objective route to ethical criteria of demarcation' (2013, p. 171), the authors develop a set of questions (i.e., can the business state the social value of what it produces?; what statements can the business make about what it will and will not do?) managers ought to ask

when considering what broad-based ethical stance they might take with respect to their stakeholders. Although Szmigin and Rutherford (2013, p. 178) claim that their IST contributes to ‘the development and implementation of the firm’s charter of values’, they offer far more specifics regarding how to develop ethical values than how to implement them. Thus, while an important contribution to ethical decision-making theory in its own right, Szmigin and Rutherford’s (2013) application of Smith can be extended even further by applying the logic of the unification thesis. Specifically, once managers have arrived at the high-level values that will guide their firms, they can determine how to implement them by sympathizing with those who are likely to be affected by any actions they might take in pursuit of those values. In so doing, managers ought to consider not just *whether* harm might be done to a stakeholder, as Szmigin and Rutherford (2013) advocate, but also the *nature and degree* of that harm so that they can differentiate between those that detract from a stakeholder’s imperfect rights (permissible where stakeholders lack intimate ties to the manager) and those that detract from stakeholder’s perfect rights (impermissible regardless of the level of intimacy).

Concurrent with efforts to highlight the importance of moral issues in decision-making have been efforts to consider how to act on the basis of those decisions. According to Werhane (1999, p. 93), ‘moral imagination’ refers to ‘the ability in particular circumstances to discover and evaluate possibilities not merely determined by that circumstance, or limited by its operative mental models, or merely framed by a set of rules or rule-governed concerns’. Articulating the problem moral imagination seeks to address, Werhane writes,

The most serious problem in applied ethics, or at least in business ethics, is not that we frame experiences; it is not that these mental models are incomplete, sometimes biased, and surely parochial. The larger problem is that most of us either individually or as managers do not realize that we are framing, disregarding data, ignoring counterevidence, or not taking into account other points of view. That is, many of us have a paucity of moral imagination, the ability to step out of our present ways of thinking, evaluate those mind sets, and develop or adopt new ways of thinking, acting, and evaluating our decision processes and behavior. Thus sometimes companies get into trouble, not because they deliberately meant to do the wrong thing (although that happens too!), but because they did not question what they were doing or challenge the mind sets and methodologies with which they thought through issues (2006, p. 404)

Werhane (2006, p. 407) further contends that a strong moral imagination ultimately derives from ‘our consciousness of human rights and sensitivity to ill desert’ and concludes that by exercising our moral imagination ‘the world and commerce will get better so that by 2100 . . . jungle capitalism will be a thing of the past’. In other words, Werhane is suggesting that the key to a more just and equal society is not better decision models, but rather better cognitive abilities that can help us understand the biases that affect our decisions and, in turn, broaden our consideration of the possibilities for moral action on the basis of those biases.

In support of this idea, Rorty (2006) argues that improvements in ethical decision-making have not necessarily been the result of better moral reasoning, but rather improved awareness of possibilities for action. Rorty views moral imagination to be a central contributor to human and societal development. He writes,

an increase in benevolence – in willingness to take the needs of others into account – is possible only when people have enough security and leisure to imagine what it must be like to be someone quite different from themselves, or in a very different situation than their own. Such exercises in imaginative sympathy have been essential to moral progress. (2006, p. 376)

Though both Werhane's (1999, 2006) and Rorty's (2006) arguments and terminology are clearly indicative of Smith's notions of sympathy and the impartial spectator, neither references Smith in their discussions of moral imagination. Nevertheless, research on moral imagination can benefit from a formal application of Smith as laid out in the unification thesis. Though both Werhane and Rorty argue that moral imagination enables the *a priori* evaluation of the causes and consequences of one's behavior (consistent with Smithian sympathy), neither acknowledges the difficulty in doing so, particularly when the objects of one's actions are geographically and/or emotionally distant. Smith's notion of intimacy, therefore, can extend the discussion of moral imagination by establishing a boundary condition on one's ability to arrive at that set of possible behaviours that take the ethical needs of others and one's own moral obligations to them into account. In other words, while moral imagination may result in the identification of novel solutions to ethical dilemmas, the moral content of those solutions will be, at least in part, determined by the intimacy of the relationships between decision-makers and those affected by their decisions. Where intimacy is high, imaginative solutions to ethical dilemmas faced by managers are likely to serve the perfect and imperfect rights of their stakeholders. Where intimacy is low, however, these solutions are more likely to result in the types of unintended (and often harmful) consequences noted above.

Social enterprise. Social enterprise has emerged as a field of considerable interest over the past two decades. While social enterprises are generally conceptualized as 'organizations seeking business solutions to social problems' (Thompson and Doherty, 2006, p. 362), because research on these organizations is quite fragmented (Newbert and Hill, 2014), a full-scale review is not possible. The focus here, therefore, is on the stream of research that seeks to address the tension these 'hybrid' ventures face in pursuit of 'paradoxical' social and economic goals (Smith and Lewis, 2011) given its relevance to the unification thesis.

In their review of research in this area, Smith et al. (2013) note that most work to date has been descriptive, focusing on exemplars (Chowdhury and Santos, 2011; Lewis et al., 2014; Mair and Marti, 2009; Pache and Santos, 2013). Although the generalizability of such studies is limited, this research nevertheless highlights the possibility that managers may advance their firms' (and, by extension, their own) economic self-interests while also benevolently serving those of society. In response, scholars have found evidence suggesting that strategies such as socializing employees (Battilana and Dorado, 2010), coupling social and economic goals/principles (Pache and Santos,

2011), adopting acceptance and resolution strategies (Smith and Lewis, 2011), and sense making (Jay, 2013) may enable managers of social enterprises to balance their seemingly antithetical objectives.

It is important to note that the implicit assumption of this research, that the social and commercial sides of a business are ‘competing logics’ (Pache and Santos, 2013), is only valid if we accept the separation thesis. An alternative view, suggested by the unification thesis, is that self-interest and benevolence are not mutually exclusive. Consider, for example, Hageman and Rao’s (1997) research on savings and loan (S&L) banks. These authors conceptualize S&Ls as ‘an incarnation of what Adam Smith (1976) termed a “theory of moral sentiments” to guide the conduct of “prudent men”; a system of logic and ethics that combined Stoic prudence and self-command with Christian benevolence’ (1997, pp. 1611–2). They continue by noting that for the S&L managers in their study, ‘moral worth was improved by economic advancement’ (1997, p. 1612), both of which were made possible by the home ownership benefits their banks provided. In other words, the S&L managers’ interests and those of society were complementary.

As this example shows, managers need not make choices only along the axes depicted in Figure 1 (*either* out of self-interest *or* benevolence); rather, they are also free to operate in the grey area between those axes. Where in that moral free space they ultimately operate is determined by engaging in Smith’s sympathetic process. This understanding can complement the strategies proposed by social enterprise researchers by suggesting that in addition to adopting strategies to resolve or pre-empt the presumed ‘conflict’ among their motives, managers may also sympathize with those who their decisions will affect in order to ascertain how harmful (if at all) those effects might be. In so doing, managers may strike a proper balance between self-interest and benevolence rather than viewing them as discrete choices.

Summary. The fact that Smith is foundational to our modern understanding of the role ethics plays in business is important given that the way in which we understand the historical roots of our theories of business ethics affects the types of decisions we make (Werhane, 2006). Because Smith’s great works have often not been properly viewed in the context of one another (Raphael and Macfie, 1976), business ethicists have faced the uphill battle of convincing those who advocate a purely self-interested approach to business (i.e., Jensen, 2002; Sundaram and Inkpen, 2004) that an acute focus on WON is unfounded. By formalizing Smith’s thought into a cohesive response to the separation thesis, I hope to add important layers of depth and breadth to business ethics theories by articulating both the mechanism by which ethical decisions might be made and the contingencies by which they are bound.

Implications for Practice

In their defence of the separation thesis, Sundaram and Inkpen (2004, p. 371) argue that ‘the reality of day-to-day managerial decision making is one that is replete with tradeoffs and competing claims to resources and outcomes’ and that because of the difficulty in determining how to navigate this tension, decisions ought to be made in the interests of the shareholder only as they will (presumably by way of Smith’s

invisible hand) 'enhance outcomes for all stakeholders' (2004, p. 370). After all, they claim, 'well-meaning sentiments are not guidelines for decision-making' (2004, p. 370). I reject such a view and advocate, as Smith did, that our sentiments *should* inform decision-making by enabling us to regulate our self-interested and benevolent motives. It is important to note that unlike many prior efforts in this space (i.e., ten Bos and Willmott, 2001), I do not dismiss self-interest as a viable motive for behaviour. Instead, the unification thesis I propose articulates the conditions under which Smith himself might advise us to determine *a priori* which of our motives to prioritize such that we may rightfully further our own interests, but not at the expense of the rights due to other members of society.

If adopted in practice, the unification thesis may have important implications for business decision-making at the micro-, meso- and macro-levels. At the micro-level, it may help managers navigate the tension among their motives as the process of moral judgment it advocates does not exclude managers from pursuing their own interests. In this way, the unification thesis is responsive to Sundaram and Inkpen's (2004) call to provide a robust alternative to the separation thesis that is compatible with, rather than dismissive of, the self-interested motive inherent to capitalist economies.

At the meso-level, the unification thesis may help establish a shared set of values within the firm. Specifically, the more of a firm's managers that adopt it, the more likely the firm's interests (i.e., survival, growth, etc.) will be advanced in ways that minimize its impact on society-at-large. Although managers will necessarily have the ability to exercise some degree of latitude and interpretation when sympathizing, the firm-wide implementation of such a model can nevertheless provide a more consistent set of decisions than would be the case if moral judgement were relegated to the idiosyncratic heuristics of each individual manager.

At the macro-level, the widespread adoption of the unification thesis can have important systemic effects. Although it places a moral duty on managers to protect the perfect rights of all, it also allows them the moral free space to further (or not) the imperfect rights of those with whom they share (lack) emotional and/or geographic ties. In this way, managers not only generate utility for those individuals with whom they are intimately connected, but also offset at least some of the inequalities that may naturally result from the self-interested actions taken by managers at firms more distant to those communities. When viewed in aggregate, the unification thesis allows even the most isolated individuals to enjoy a greater sense of social and economic equality than they would in a world where decisions are motivated purely by self-interest.

The amalgamation of these micro-, meso- and macro-level effect is depicted in Figure 2. In Panel A, the managers of Firm A are depicted as acting with increasing levels of benevolence (darker shading) and decreasing levels of self-interest (lighter shading) the more geographically and/or emotionally proximal they are to the individuals who will be affected by their decisions (all of whom are contained within the dotted line). In isolation, those individuals who lack intimate ties to Firm A's managers may have nothing more than their perfect rights protected. However, in Panel B, all other managers whose decisions may affect these individuals are added to illustrate how the unification thesis can protect their imperfect rights as well. To the extent that the individuals in the outer sphere of intimacy of Firm A's managers are also geographically

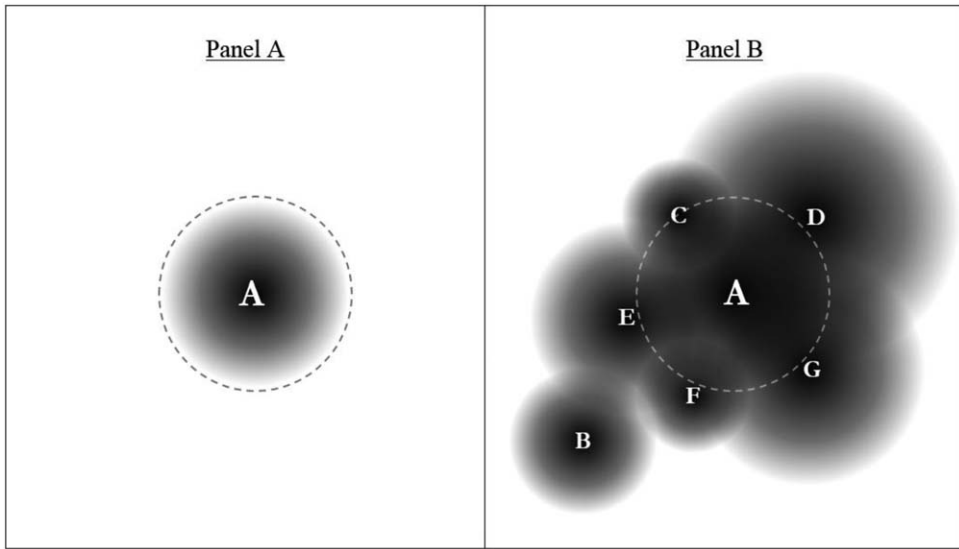


Figure 2. Aggregate effect of protecting and promoting local interests

Notes: Letters in panels A and B refer to different firms; darker shading indicates a greater emphasis by managers of those firms on benevolence; lighter shading indicates a greater emphasis on self-interest; dotted line indicates the boundary of the population of individuals affected by the managerial decisions for each firm.

and/or emotionally proximal to the managers of at least one other firm, their interests will not be solely determined by the self-interested decisions made by the managers of Firm A. Instead, the managers of Firms B through G will act with a degree of benevolence toward them that is commensurate with the level of intimacy characterizing their relationships.

In order to demonstrate how this unification thesis might have unfolded in Smith's time, consider again the 18th century Atlantic tobacco trade. The fact that American slaves were emotionally and geographically distant from Scottish tobacco merchants might suggest that these merchants ought not consider the slaves' interests given that they could not sympathize with them with any degree of precision. However, because slavery is a violation of perfect rights, these merchants would have a moral duty to avoid trading with the slave-owning American plantation owners even though doing so was in their self-interest. Yet, the mere absence of harm, coercion, and ownership by another does not ensure the 'flourishing and happy' society Smith (1994, p. 90) envisioned. In order to arrive at such a social arrangement, the American plantation owners would shoulder the primary responsibility for promoting and protecting the slaves' interests above and beyond the mere assurance of their perfect rights. Because slaves were part of their owners' inner spheres of intimacy (due to their geographic, and often emotional, proximity), they, unlike the geographically- and emotionally-distant Scottish merchants, would also be expected to serve the imperfect rights of those who provided their labour by tempering their self-interest and acting with some measure of benevolence toward them, such as by providing for their freedom, paying a fair wage, and ensuring safe working conditions.

CONCLUSION

The Smithian unification thesis proposed herein may offer a way to bolster the legitimacy of the view long-held by business ethicists that business matters can and do have moral content. By reminding supporters of the separation thesis that Smith's economic man in WON 'is not perfectly selfish' (Windsor, 2006, p. 112), this response does not entirely dismiss the neoclassical understanding of business; rather, it merely augments this view by articulating what Smith himself believed to be a more comprehensive and more realistic model of decision-making. Such an approach should be palatable to even the staunchest advocates of the separation thesis. As Sundaram and Inkpen (2004, p. 371) admit, 'we would be the first to welcome . . . [a view that goes] beyond critiques of the shareholder view to offer a robust alternative theory that is compatible with the naturally occurring incentives, impulses, and imperatives of market- and property rights-based economies in democratic-capitalist societies'. Inspired by this acknowledgement, I believe the unification thesis advanced herein can reunite discourses of business and ethics in the way Smith himself intended (Raphael and Macfie, 1976).

Of course, the arguments presented herein are not beyond reproach for at least three reasons. First, the unification thesis I have put forth is somewhat agnostic with respect to the nature of the decision facing managers. While this agnosticism is purposeful so that the model can be applied broadly, this generality comes at the cost of implicitly ascribing equal weight to all decisions, which admittedly oversimplifies the complexity of the business environment. While a benevolent decision by one manager may counterbalance a self-interested decision made by another, it is more likely that one will have greater influence on the lives of those affected. In areas such as sub-Saharan Africa where managerial decisions with the greatest impact are often made by managers lacking intimate ties to local communities, self-interest may well rule the day. While this reality may mean that the unification thesis cannot eliminate social and economic inequality, it may nevertheless help reduce it. If applied broadly, even the most distant managers would be obligated to protect the perfect rights of members of a given community, while local managers would be obligated to protect their imperfect rights as well. The fact that these moral duties are regularly ignored by managers within and outside the inner spheres of intimacy of many sub-Saharan African communities (Andrees and Besler, 2009; Barone, 2017; Besler, 2005) suggests that even a somewhat agnostic unification thesis can at the very least improve social and economic equality beyond what we see today.

Second, the unification thesis relies on the assumption that managers are not only concerned about social and economic equality, but more importantly willing to sacrifice their own interests (in whatever capacity) in order to attain it. Unfortunately, even if this assumption holds for some, due to the likelihood that others will act as 'moral free riders' (Hartman, 2001, p. 684), social and economic inequality are not likely to disappear anytime soon. For example, even if the 18th century Scottish tobacco merchants had refused to import American tobacco produced via slave labour, other self-interested merchants may have filled the void. Thus, the obligation to avoid violations of justice must apply to all in order to maximize social welfare. While such an outcome may seem unlikely, there is still hope. According to Ferraro et al. (2005, p. 14), self-interested behaviour,

including but not limited to free-riding, 'is learned behavior, and people learn it by studying economics and business'. Thus, if we as business scholars and educators can infuse the discourse of ethics more seamlessly into the discourse of business, as articulated by the unification thesis, we might encourage at least some current and future managers to accept their moral duty to temper their own interests for the sake of others, thereby chipping away at the historically high levels of social and economic inequality.

Third, inequality is the result of a multitude of factors, only one of which may be the widespread adoption of the separation thesis. While this research adopts a Smithian lens to consider how inequality might be reduced, such is admittedly but one of many potential approaches through which to view the problem. Notwithstanding the potential merits and insights other approaches may provide, given Smith's unintended role in giving rise to the separation thesis, coupled with Smith's ultimate concern with social and economic equality, a Smithian lens is arguably an appropriate one.

As Heilbroner (1986, p. 1) argues, 'no economist's name is more frequently invoked than that of Adam Smith, and no economist's works are less frequently read'. Two and a half centuries after the publication of TMS and WON, it seems as though neoclassical economists have, by and large, developed decision-making models based on a narrow reading of the latter, without an understanding of its relationship to the former. As a result, the social and economic inequalities of Smith's day have, unfortunately, persisted to modern times. In order to improve social welfare, I propose that managers must broaden their perspective by infusing their decision-making with the full breadth of Smith's thought. Should managers have the courage to make decisions that serve their own interests without undermining their obligation to the perfect and imperfect rights of other members of society, the outcomes associated with such an economic system might better approximate those that Smith predicted, but which we have yet to realize.

I began this research with the following quote by Werhane (2006, p. 403): 'to see that many of our ideas have long roots is important in an era which imagines that everything worthwhile was thought up yesterday'. By suggesting that Smith is both the unwitting cause of and the potential cure for the separation thesis, I hope to challenge its supporters and detractors to consider the implications Smith's work has for an improved understanding of social and economic equality and the managerial decision-making process by which it may arise. In so doing, perhaps we may get one step closer to finally reuniting the discourses of business and ethics as Smith originally intended.

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