Profit: Some Moral Reflections

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ABSTRACT. The issues of profit, its moral meaning, justification and role, need careful examination. Mistakes to be avoided in making moral sense of profit include the assumption that profitability establishes a company’s moral rectitude. Profit is too complex a phenomenon to establish any such thing. Steps toward clarifying these issues include distinguishing profit as the goal of the corporation from the larger goals of the economy itself, and clarifying what we mean by profit. ‘Profit’ often includes the moral or value consideration of having been rightly or fairly earned. This provides one starting point internal to business for formulating standards for business ethics.

Profit is only rarely the central focus of business ethics discussions. In fact, when profit as such becomes the focus, we are no longer doing business ethics in the usual sense but are rather raising the question of the moral legitimacy of the business system itself. This is quite a different enterprise. Nevertheless, it would be a mistake to conclude that profit does not play a significant role in business ethics. In fact, it appears to be one of the most important and persistent background elements in such discussions. After all, business ethics currently focuses almost exclusively on for-profit corporations, even though they share many characteristics and problems with not-for-profit enterprises. Apparently profit is widely thought to be a significant, even a morally significant distinguishing factor.

In fairness to business ethicists who are often accused of raising the profit issue, it should be noted that the focus on this subject is sometimes sharpened by business people themselves. Aided and abetted by academics such as Peter Drucker (1981), some business people are convinced that the major motivation of business ethicists is an anti-business animus, which presumably translates very easily into a morally based rejection of profits as such. Such persons often concentrate on exposing and discrediting such a bias, or on showing how most measures recommended by ethically concerned critics will threaten profits and thus endanger the corporation itself. At this point the conversation either focuses on profit or comes to an end.

Why profit always hovers and sometimes dominates

If we are to get beyond this problem with profits, we must ask why it frequently looms so large, perhaps even larger in popular response to business than in academic discussions. Surveys consistently show that the average citizen greatly overestimates corporate profit. This results in part from the consumer’s assumption that any shortfall between the price of goods or services and the perceived value received is the result of corporate profit. Anytime an increasingly demanding and educated buying public feels short-changed in the marketplace, the conviction will grow that profits are soaring beyond all reason. Of course much such shortfall actually represents the costs of poor management, inefficient production and marketing, etc. But it is the consumer’s
perception rather than the reality itself that determines the direction and tone of the discussion.

Profit sometimes becomes an easy target for the critic because of the way it is defined. If profit is what is left of gross receipts after all expenses have been paid, then the critic's obvious question is, "What justifies profit, what is profit repayment for?" Wages and benefits for workers, payment for raw materials, taxes, advertising and other marketing costs, return on needed capital are all generally seen by consumers as costs legitimately passed on as part of the product's price. But if all these have been taken care of, and only then is the remainder treated as profit, business is hard pressed to say what profit is payment for, how it is earned, why deserved. The usual move at this point is to define profit as what is left after all tangible, or all specifiable and quantifiable costs have been paid. Thus profit becomes payment or reward for certain intangibles crucial to production and marketing. Risk, entrepreneurial creativity and initiative, uncertainty, deferring use of one's resources to make them available as capital, are some of the possibilities here. While this definition provides a bit more justification for profit, it is still quite an intangible one. Furthermore, the impossibility of measuring such intangible elements makes it difficult if not impossible to answer the almost inevitable next question, "How much profit is appropriate?"

Finally, profit is always a potential focus because the solutions to many business ethics problems threaten to eat into profits. Appropriate responses to problems such as pollution, adequate wages and benefits, safe, even pleasant working conditions, non-discriminatory personnel policies backed by appropriate recruitment, training and even retraining programs, careful husbanding of non-renewable resources, honest, informative advertising, production of safe, durable products — all of these frequently involve the expenditure of additional funds which can only come from what was previously treated as profits. Thus, for example, the pollution debate is not between business which favors pollution, and citizens who oppose it. It is between two sides which agree that pollution is undesirable but who will not always agree on what is a tolerable cost for reducing it. Thus while corporations do not pursue profit only (Adam, 1973; Lennox, 1984), that may seem to be the case when other morally indicated goals are resisted in order to protect profits.

Furthermore, business will often be at a significant disadvantage when profits are in this way set in tension with the needs or wants of other constituencies because the intangible elements which might justify profits do not, in the eyes of many persons, stand up well against the more immediate, basic and tangible needs of other claimants, such as more adequate wages and benefits for workers, clean air and water for all, or employee and consumer safety.

Mistakes to be avoided

Premature defensiveness

There are several pitfalls awaiting persons wishing to make good moral and human sense out of profits in response to the above questions. First, it should be noted that according to the above analysis, profit can end up on the defensive not just because of ill-will, anti-business animus or massive ignorance about economics and the capitalist system. On occasion these factors may contribute to profit's problems. But many problems arise from the response of ordinary persons who predictably identify more easily with those basic interests and needs which often seem to be ranged against profit than they do with profit itself. Thus for business instinctively to charge forth to do battle with ill will and anti-business sentiments when profit is raised as an issue is usually premature, off-target and counter-productive.

Excessive generalising

Two other mistakes to be avoided are more conceptual in nature but are still important beyond academic circles. The first is the tack taken by H. B. Acton (1980) and others who argue that the pursuit of profits is simply one manifestation of the desire of everyone — whether investor, wage earner, supplier, or consumer — to possess more than one has. Such a generalizing of the meaning of profit and of profit seeking aims at answering critics of profit in two ways. The first depends on the belief that if a drive can be shown to be universal in humans and therefore apparently innate, it is beyond ethical examination and moral criticism. But this ignores the obvious fact that we are often held responsible