ABSTRACT. The article suggests that in a modern context, where value pluralism is a prevailing and possibly, even ethically desirable interaction condition, institutional economics provides a more viable business ethics than behavioural business ethics, such as Kantianism or religious ethics. The article explains how the institutional economic approach to business ethics analyses morality with regard to an interaction process, and favours non-behavioural, situational intervention with incentive structures and with capital exchange. The article argues that this approach may have to be prioritised over behavioural business ethics, which tends to analyse morality at the level of the individual and favours behavioural intervention with the individual’s value, norm and belief system, e.g. through ethical pedagogy, communicative techniques, etc. Quaker ethics is taken as an example of behavioural ethics. The article concludes that through the conceptual grounding of behavioural ethics in the economic approach, theoretical and practical limitations of behavioural ethics, as encountered in a modern context, can be relaxed. Probably only then can behavioural ethics still contribute to raising moral standards in interactions amongst the members (stakeholders) of a single firm, and equally, amongst (the stakeholders of) different firms.

KEY WORDS: behavioural approaches to business ethics, economics & business ethics, pluralism, quaker industrialists, stakeholder theory

[T]he language of morality is in the ... state of grave disorder ... What we possess, if this view is true, are the fragments of a conceptual scheme, parts which now lack those contexts from which their significance derived. ... We possess indeed simulacra of morality, we continue to use many of the key expressions. But we have – very largely, if not entirely – lost our comprehension, both theoretical and practical, or morality. ... [W]e are all already in a state so disastrous that there are no large remedies for it.

(A. MacIntyre, *After Virtue*, 1985, pp. 2, 5)

The key thesis of this article is that an institutional business ethics that is informed by economics, especially the so-called New Institutional Economics (as explained later), is preferable to behavioural ethics for ensuring high moral standards in business interactions. This is so because, as a guide to social interaction, behavioural ethics, even an institutionally oriented one, depends upon like-mindedness of interacting agents in order for business ethics to prosper; for instance, Donaldson and Dunfee’s (1999) project of institutional, behavioural ethics
here conceptualises ‘social ties that bind’ (Similarly, Osterhout et al., 2006 and their project of a contractualist business ethics). However, the modern condition is one in which like-mindedness is scarce, as reflected by interaction conditions of value pluralism, ethnic diversity, etc. One way to view this is as a problem to be overcome — by constructing and promoting like-mindedness through arguing (Donaldson and Dunfee, similarly, Rawls) or otherwise talking away (Habermas) moral disagreement. Another way to view this is as a constraint on institutional design — adopting social norms less dependent for their success upon like-mindedness and abandoning norms more dependent on like-mindedness. The condition of modernity is then endorsed. The article favours this latter approach. In this respect, the article fundamentally differs from behavioural, institutional business ethics which at least facially may be focused on the institutional — in a behavioural manner, such as social ties that bind or integrative social contracts (e.g. Donaldson and Dunfee, 1999; similarly, Oosterhout et al., 2006). Where the institutional analysis of this article departs from these theorists is in taking moral disagreement seriously. For Kantian stakeholder theorists and social contractarians within business ethics, moral disagreement is shallow and may be dissolved through institutions promoting public, social reason. In contrast, for the present study, moral disagreement and value diversity are deep, and the road to improvement is to design economic institutions that facilitate social interactions, while leaving moral disagreement intact. That is something the New Institutional Economics can contribute to business ethics, research and to the practice of business ethics, even institutionally focused one, cannot.

The means, by which the key thesis of the article is established and argued for, is the analysis and contrasting of how behavioural business ethics and an economic approach to business ethics differently conceptualise questions of morality — simply ‘defined’ questions of ‘doing good in social behaviour’. And this analysis is primarily conducted through a historic case study of British Quaker employers and their failing attempts to implement a behavioural business ethics.

The mainstream in business ethics research and business ethics consultancy largely takes a behavioural approach to assessing questions of corporate morality, either an individualistic behavioural stance or an institutional, behavioural one. Theoretical research and the resulting consultancy are grounded in behavioural ethics in the tradition of Aristotelian virtue ethics, Kantian stakeholder ethics or religious ethics. Quaker ethics is a good example of this tradition. Quaker employers like Cadbury or Rowntree in 19th- and 20th-century Britain attempted to fully implement this ethics in a business context.

Analytically and practically, behavioural ethics narrowly handles questions of morality at the level of the individual: If an ethical problem occurs, this is theoretically conceptualised as the ‘human condition’, e.g. deficits in virtuous character traits, a lack of acceptance of moral duties, a lacking internalisation of religious values by the individual, etc. In order to practically solve an ethical problem, the strengthening of the individual’s ethical value, norm and belief system (of ‘behavioural institutions’) is recommended. A social, institutional dimension can show here up, too. At many business schools, behaviourally oriented business ethics seminars and courses try to teach managers and prospective managers proper behavioural ethical conduct, aiming to (re)-moralise the behaviour of the individual in order to do away with weak moral predispositions and ensure moral like-mindedness (e.g. Collins, 2000; von Dran et al., 2001; Hill and Stewart, 1999; Murphy, 1998).

At least implicitly, already Mandeville and Adam Smith advocated an economic approach to business ethics. Regarding its very nature, they proposed and understood the economic approach as an alternative to behavioural ethics. Hayek (1960, 1976), Buchanan (1975, 1987a) and Friedman (1970) clearly sensed this, too, as did Homann’s economic research on business ethics, interpreted as ‘incentive ethics’ (Homann, 1997, 1999; see also Wagner-Tsukamoto 2005, 2007b). In this tradition of an economics approach to ethics, the present article develops a critical perspective on behavioural business ethics, suggesting that the (institutional) economic approach may have to be prioritised over behavioural business ethics in order to promote business ethics.

Issues of practical intervention, in particular, reveal sharp differences between the institutional economic approach and a behavioural approach to ethics. Behavioural ethics, including behavioural economic research on ethics (e.g. Frank, 1988, 2003; Margolis, 1982; Simon, 1993) and behavioural,