WHY THINKING ALWAYS IN TERMS OF PROFITS AND SUCCESS IS ETHICALLY WRONG

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Business administration = teaching how to maximize profits?


- “The increasing primacy of economic language and assumptions is in part a function of business school education with its concomitant focus on self-interest and maximizing shareholder value as not one of, but the objective of business.” Jeffrey Pfeffer (2016)

- “The principle of long-term profit maximization is a maxim of action that runs through Wöhe’s textbook as the guiding thread.” Ulrich Döring (Prof. of BA, long-time co-author of the “Wöhe”)
  - Wöhe, Günter: Einführung in die Allgemeine Betriebswirtschaftslehre, 1. ed 1960, 27th ed. 2020, 984 p., approx. 1.8 Million copies sold
What is profit maximization?

- Profit-maximization = to do, whatever it takes to ensure that profits are as high as possible. Profit maximization means to walk over dead bodies, if that pays off in the long-run. Otherwise, one would not maximize.

- Profit maximization is already inherently long-term. Short-termism = myopia.
  - “Long-term maximization” = pleonasm
  - “Short-term maximization” = contradiction in terms
Long-term for whom?

- Long-term ≠ permanent existence of the company
- What about restructuring?
- “The primary goal of corporate management is to add value for the shareholder in order to increase his wealth. All other objectives are clearly subordinate to this goal, including the survival of the company as an independent organization.” Peter Wuffli (ex McKinsey, ex CEO-UBS, 1988)
- Long-term = the fortune of the investor under consideration
- Including the hit-and-run investor
- Sometimes it pays to let a asset stripped company go bankrupt.
- Holding period of stocks: 6 years in post-war economy, 6 months today
The Ethics of Profit Maximization

- Profit maximization cannot be justified by any means.
- Justifications as such are of no interest to the profit maximizer. They are a waste of time.
- Profit maximization violates the moral principle directly and head-on.
- Due to maximization. Pure instrumental reason, success rationality.
- “Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end.” Immanuel Kant (second formula of the categorical imperative, 1786)
The Ethics of Profit Maximization

- “as a means” = his or her power (e.g. purchasing power, competitiveness, etc.)
- Pure instrumental rationality: Power is decisive.
- “as an end” = recognition of our fellow humans as a being of equal dignity who might have serious objections
- Discourse rationality, good moral reasons should be decisive.
- Homo oeconomicus “is done” with any of his fellow humans. “In other words, he tramples the roots of humanity underfoot.”

Georg Wilhelm Friedrich Hegel (1807)
A Business Case for Ethics?

- The Business Case is everywhere.
- “Ethics pays off in the long term.”
- “A company cannot achieve long-term profits without considering the needs of a broad range of stakeholders. Actions that damage society may maximize returns in the short term but will destroy shareholder value.” Larry Fink (chairman and CEO of BlackRock, 2020)
- “Sustainable success can only be achieved if the legitimate interests of all stakeholders are taken into account.” Henning Schulte-Noelle (CEO, later chairman of Allianz, 2012)
- “We can’t do anything wrong ethically if we maximize our profits.”
- Full harmony between ethics and profits, legitimacy and profitability.
- A true miracle.
Why the Business Case is wrong

- Business Case for ethics: Rejection of Kant’s refutation of pure instrumental rationality

- Stakeholder = “any group or individual who can affect or is affected by the achievement of the corporation’s purpose.“ Edward R. Freeman (1984)

- “can affect” = manifest power

- “is affected by” = latent power, countervailing power is likely

- “long term” = time for resistance to form

- “Groups which 20 years ago had no effect on the actions of the firm, can affect it today, largely because of the actions of the firm which ignored the effects on these groups.” Freeman (1984)
“Relevant” or „key stakeholders“ = „powerful stakeholders“
Gardberg/Fombrun (2006, p. 335)

“In terms of long-term profit maximization, it is also important to
cooperate with stakeholders who have resources relevant to the
compny’s success.”  Margret Borchert: Mehr Gewinn durch
Mitbestimmung, FAZ, 2/8/2021

Under the rule of pure success rationality, the power of the
participants is ultimately decisive.

The business case comes down to an (anti-)ethic of the right of
the powerful.
Businesses – are they profit maximizers?

- What do companies do? What is their reason of being? What is the principle guiding their actions?
- “The ultimate goal” of businesses is “long-term profit-maximization”, that is what business economics “registers” and “empirically identifies”. Wöhe (1996)
- Why then write a thousand-page textbook outlining the “means” that “serve the best possible realization of this goal” (Wöhe)?
- „If people were as rational as economists assume, students need not be taught economics.” Richard B. McKenzie (2010, S. XIV)
- Companies are no profit maximizing machines – yet.
- Businesses are made so – by business economics, among other influences.
Performativity

- **Performativity!**
  - How to do it? Instrumental knowledge. How to become “a more astute participant in the economy” (Mankiw) – alertness, ingenuity, discovery.
  - **Legitimizing:**
    - “The social responsibility of business is to increase its profits.” Milton Friedman (1970)
    - „Shareholders are the only stakeholders of a corporation who simultaneously maximize everyone’s claim in maximizing their own.” Copeland, et al.: Valuation, 1995, p. 22.
    - “Every individual strives to maximize self-interest.” Anyone who sees this differently is “out of touch with reality”. Wöhe (2013, p. 5f.)
    - “People may believe they ought to behave in a self-interested way or risk appearing foolish, gullible, or naïve.” Ferraro/Pfeffer/Sutton (2005)

- **Business Economics’ empirical assumptions become a self fulfilling prophecy.**
Profits extremism

- Making profit maximization a reality.
- Profit maximization as process: “Discovering hitherto unrealized opportunities” (Friedrich August von Hayek)

Examples
- McKinsey instructed Purdue Pharma (Sackler family) on how to “turbocharge” sales of OxyContin, how to counter efforts by drug enforcement agents to reduce opioid use, and were part of a team that looked at how “to counter the emotional messages from mothers with teenagers that overdosed” on the drug. NYT (2019) “The value at stake is significant – hundreds of millions, not tens of millions.” McKinsey (cf. indictment bill)
- In the 1990: “profitabilization of the lending business” in banks. How possible?
Profits extremism

- Examples
  - The business model of investors taking over privatized hospitals is work intensification. „The result is massive employee overload and patient endangerment.“ Asklepios-Kliniken. Der kranke Konzern, Der Spiegel, 51/2016
Gesunde Gewinne
Asklepios-Konzern, Veränderung gegenüber 2010

* vor Zinsen, Steuern und Abschreibungen

Gewinn* +64%
Umsatz +45%
Patienten +41%
Mitarbeiter +29%
Examples

- Valeant bought the rights for a live saving orphan drug from Merck Pharmaceuticals. And raised the price for an annual dose from $1,500 to $300.00. “Deeply immoral” and “similar to the worst abuses in for-profit education”. Berkshire Hathaway vice chairman Charlie Munger

- JAB Holding, Reimann family, wants to become the world’s largest coffee roster. As soon as the financially strong company buys a roaster, “tougher conditions immediately apply to their suppliers”. Paying later → interest-free loans → buying more rosters. “Rosters who did not appear competitive to the new owners were discarded.” (Spiegel, 38/2017)

- “Our approach to this day is to roll up entire industries. In 2012, we set out to quadruple what were then JAB assets of $9 billion by the end of 2021, including dividends. The value of all our holdings is currently $120 billion. We aim to quadruple this figure again over the next ten years.” (Peter Harf, 2020)
Profit maximization as Elimination

- Obviously, in “normal” businesses there are numerous considerations at play other than profitability.
- Embeddedness (Karl Polanyi)
- Profits extremism = Excluding and eliminating all considerations other than profitability, which, however inconsciously, rested in the business hitherto.
- This can make you very rich. To the detriment of others.
The Soulful Corporation

- Postwar Economy (“Social Market Economy”, “Trente Glorieuses”, “Great Compression”) – Three pillars:
  - Social Security
  - Regulation
  - A business culture of moderation (making profits without maximizing)

- “The job of management is to maintain an equitable and working balance among the claims of the various directly affected interest groups … stockholders, employees, customers, and the public at large. Business managers are gaining professional status partly because they see in their work the basic responsibilities [to the public] that other professional men have long recognized as theirs.” Frank Abrams (chairman of Standard Oil of New Jersey, 1951)

- “The soulful corporation” Carl Kaysen (Harvard economist, adviser of John F. Kennedy)
Revitalizing the idea of the Soulful Corporation

- We will overcome profits extremism only when values other than profitability get their own due and count for their own sake.

- The focus today it just “on the economic costs of toxic workplaces, rather than on the human toll”. Jeffrey Pfeffer (2016)

- Reforming business education

- Rakesh Khurana: “From Higher Aims to Hired Hands” (2007): Ethical reflections need to be “embedded in the entire business school experience ... not simply by echoing and reproducing the dominant market logic, or challenging in only at and from the margins, but rather by systematically interrogating it from the standpoint of alternative models.” (p. 188, 365)

- Assistant Dean HBS, 1926: “If the purpose of BA is to train ‘hands’, i.e. merely successful money-makers, the course has no place in a graduate department of a university. It needs to train ‘heads’ or future leaders in business.” (quote on p. 5)
Rejecting “shareholder primacy”?

- Profit maximization and business economics is in crisis (Daniel Deimling 2021).
- “Maximizing value for shareholders is the sole purpose of a corporation.” Statement of the Business Roundtable (1997)
- The alleged U-turn of the Business Roundtable in 2019: “Updated Statement Moves Away from Shareholder Primacy, Includes Commitment to All Stakeholders… This is the only way to be successful over the long term.” It is wrong that “corporations exist principally to serve shareholders”. They serve everybody…
- What we need instead: The dethronement of the profit principle.