

# 1. Ethical innovation in business and the economy – a challenge that cannot be postponed

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## 1.1 INTRODUCTION: A HISTORICAL LOOK AT THE IMPORTANCE OF INNOVATION

In his captivating historic account *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (1999) David Landes discusses the question of why the Industrial Revolution happened in Europe, a relatively poor world region at that time, and not in the Middle East with its high Islamic culture, nor in China, the richest country in the middle of the second millennium. His short answer points to the Europeans' cultivation of invention (called 'the invention of invention' by some authors) as well as the European *joie de trouver* or the pleasure in what is new and better. These developments arose due to much less interference in Europe by religion (as was happening in the case of Islam) or by the state (as was happening in the case of China):

The Europeans ... entered during these centuries [of the Middle Ages] into an exciting world of innovation and emulation that challenged vested interests and rattled the forces of conservatism. Changes were cumulative; novelty spread fast. A new sense of progress replaced an older, effective reverence for authority. This intoxicating sense of freedom touched (infected) all domains. These were years of heresies in the Church, of popular initiatives that, we can see now, anticipated the rupture of the Reformation; of new forms of expression and collective action that challenged the older art forms, questioned social structures, and posed a threat to other polities; of new ways of doing and making things that made newness a virtue and a source of delight; of utopias that fantasized better futures rather than recalled paradises lost. (Landes, 1999, pp. 57–8)

Landes, in Chapter 3, first describes organizational innovations and adaptations in polities and commerce. In Chapter 4, he then explains

technological innovations with the help of several examples: the water wheel, eyeglasses, the mechanical clock, printing, and gunpowder. Critical in this process were not only the inventions – numerous examples happened in other parts of the world as well – but also the fact that they were made feasible in economic and financial terms. For these applications, he asserts, the market plays a crucial role:<sup>1</sup>

Enterprise was free in Europe. Innovation worked and paid, and rulers and vested interests were limited in their ability to prevent or discourage innovation. Success bred imitation and emulation; also a sense of power that would in the long run raise men almost to the level of gods. (Landes, 1999, p. 59)

Switching from the Industrial Revolution to the present day, we can observe a similar problem with innovation: it does not suffice to make an invention; it is also necessary to apply it in economic and financial terms for there to be innovation. This is a huge challenge for China today – not only to achieve scientific discoveries, but also to apply them in industry where they can be commercialized. As Gordon Zong, Managing Director of the Office of Technology Transfer at the Shanghai Institutes for Biological Sciences, explains:

Most Chinese domestic companies have the money now, but they don't have the interest to develop early-stage technology. I think the main reason is that they are still focused on a traditional business model. They don't understand modern high-tech or biotech business models where you develop technology to a certain stage, then sell it to a large company for future development and in the process create significant value based on having IP [intellectual property] coverage in major global markets. They only look at 'what kind of product can we sell, how much revenue can we generate right now?' ... [People in the companies] usually only know business but not science, or only science but not business and IP. (Quoted in Shih et al., 2012, p. 1)

Therefore, it does not come as a surprise that the World Bank and the Development Research Center of the State Council of the People's Republic of China (WB hereafter) dedicates, in its report *China 2030*, one full section to innovation: 'China's growth through technological convergence and innovation' (WB, 2013, pp. 155–216, with an overview on pp. 34–8).

As this short introduction shows, there are many good reasons for focusing on 'ethical innovation in business and the economy'. Creativity and innovation have been vital in the history of humankind in all spheres of life and pose unprecedented challenges today. Given the deep and far-reaching impact of business and economic affairs, a main test ground for ethical innovation lies in the economic sphere of life and calls for

thoroughly new thinking in and of business and economic ethics that inspires and strengthens new practices in business and the economy.

In this chapter I would like to explicate some major perspectives of this book. First, the question of ethical innovation in business and the economy is placed in the contemporary context of globalization, sustainability, and financialization. Second, the concepts of business ethics, innovation, and creativity are discussed and clarified. Third, as the purpose of business and the economy is defined as the creation of wealth in a comprehensive sense, innovation gains a central role in business and the economy. Fourth, the chapter concludes with an overview of the book and a short introduction to the subsequent chapters.

## 1.2 THE CONTEMPORARY CONTEXT OF GLOBALIZATION, SUSTAINABILITY, AND FINANCIALIZATION FOR BUSINESS ETHICS AND ETHICAL INNOVATION

Globalization, sustainability, and financialization cover huge areas of issues that cannot be properly dealt with in this chapter. Given these constraints, some definitional clarifications may suffice and be related to the topic of this book.

### 1.2.1 Globalization

Globalization can be understood as a kind of international system in the making. It is:

not simply a trend or a fad but is, rather, an international system ... that has now replaced the old Cold War system, and ... has its own rules and logic that today directly or indirectly influence the politics, environment, geopolitics and economics of virtually every country in the world. (Friedman, 2000, p. ix)

It is characterized by an increasing interconnectedness of the world, due to the revolution of information technology, and an immense reduction in the cost of transportation and communication. This dynamic system in the making is about 'global transformations' in the plural, including political, cultural and environmental globalization, migration, and the expanding reach of organized violence (see Held et al., 1999; Held and McGrew, 2000, 2002). Moreover, one should add religion's growing influence in international politics (see Thomas, 2010).

In business and economic terms, the increasing interconnectedness of the world means expanding markets and division of labor, reminiscent of the emergence of the Industrial Revolution in Europe (as described by Landes above), but, of course, at a definitively global scale. Trade, investment, and the migration of people have dramatically increased, which forces all countries and businesses alike to face the challenges of globalization in ethical or unethical ways.

Given the fact that there are winners and losers of (economic) globalization, how can countries make sure they are sufficiently innovative enough to win in this competition? Because there still exist 2.5 billion people living on less than \$2 a day (or 43 percent of the world population in 2008; Enderle, 2014, p. 32), how can innovation contribute to help them move out of poverty? Or does innovation kill more jobs than it creates (perhaps in the wrong industry or wrong location)? Does it aggravate inequality of income and wealth? What kinds of innovative technology should be developed in order to solve pressing problems such as worldwide diseases, food and water insecurity, energy shortages, and so on? What are innovative ways to organize global supply chains that ensure human working conditions and safe products? What innovative global tax regimes are necessary in order to prevent tax avoidance schemes by transnational corporations? These and more questions – under the unavoidable pressure of globalization – raise not only many ethical challenges but also call for creative and innovative approaches and solutions.

### **1.2.2 Sustainability**

As globalization is a main feature of our situation on planet Earth today, sustainability proposes to us the direction in which we ought to move. Although sustainability as a term has proliferated in many ways, I suggest that we stick to the definition of the World Commission on Environment and Development (WCED) in its report *Our Common Future* published in 1987. Sustainable development means ‘to meet the needs of the present without compromising the ability of the future generations to meet their own needs’ (WCED, 1987, p. 8).

This definition adopts a long-term, intergenerational perspective and has been widely embraced not only by scientists and policy-makers but also by business and civil society. It overcomes the separation of environment and development concerns that characterized the public discussion before this groundbreaking report. It also provides the conceptual basis for the UN Conference on the Environment and Development 1992 in Rio de Janeiro that, in its Agenda 21, has called

upon all countries, poor and rich, to commit themselves to sustainable development. Sustainability in this comprehensive sense ‘recognizes and incorporates the social, economic, and ecological objectives of multi-generations’ (Prizzia, 2007, p. 20). This three-fold conception has also shaped the so-called *Sustainability Reporting Guidelines* launched in 1997 by the Global Reporting Initiative (see GRI, 1997–2015). They enable all organizations to measure and report their performance in three key areas: the economic, environmental, and social areas, recently supplemented by governance as a fourth key area.

Again, at the UN Conference on Sustainable Development in 2012, the three-fold conception of sustainable development played a fundamental role and shaped the Rio+20 outcome document, *The Future We Want* (UNCSD, 2012). In the section ‘Our common vision’, the signatories renew their commitment ‘to ensuring the promotion of an economically, socially and environmentally sustainable future for our planet and for present and future generations’ (para. 1) and acknowledge ‘the need to further mainstream sustainable development at all levels, integrating economic, social and environmental aspects and recognizing their inter-linkages, so as to achieve sustainable development in all its dimensions’ (para. 3).

Based on this relatively well-established global goal of sustainability, what does innovation mean for ‘sustainable’ business ethics? It has to be squarely placed in a truly long-term horizon and account for the economic, social, and environmental dimensions. Innovation cannot be a short-lived fad, although it may develop only gradually. With the enormous challenge of climate change, environmental innovation deserves special emphasis. Nevertheless, economic and social innovations are essential as well because dealing with nature should not be detached from people living in society and pursuing economic activities.

### 1.2.3 Financialization

While the terms ‘globalization’ and ‘sustainability’ are fairly well established and defined, the term ‘financialization’ is widely unknown. It is absent in most encyclopedic works on economics, money and finance and, when used, it can take on very different meanings. Kevin Phillips describes the financialization of the United States (1980–2000) as a process that substituted the securities sector for the banking sector as the linchpin of the overall financial sector. This allowed finance to make a mega-leap in economic importance (Phillips, 2002, pp. 138–47), leading to extremes of income and wealth polarization, a culture of money

worship, and an overt philosophic embrace of speculation and wide-open markets (Phillips, 2009, p. 21).

In *Financialization and the World Economy*, Gerald Epstein defines the term as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005, p. 3). Greta Krippner presents systematic empirical evidence for the financialization of the US economy in the post-1970s period (Krippner, 2005).<sup>2</sup>

While these and other studies (Palley, 2007; Orhangazi, 2008) focus on macro- and microeconomic developments from a progressive angle, Paul Dembinski offers quite a different view that can be described as holistic and radical as well: financialization as a profound social transformation. Finance is understood as a kind of rationality that is incorporated in a pattern of behavior and becomes an organizing principle, leading to far-reaching psychological, social, economic, and political changes (Dembinski, 2009, pp. 5–6). Financialization has led to the almost total triumph of transactions over relationships; the ethos of efficiency has become the ultimate criterion of judgment; and, when dissociated from moral considerations, it has led to an increasingly brutal expression of greed (ibid., p. 168). Therefore, he states that it is imperative to 'reverse the financialization process and ensure that finance once again operates in the interests of human dignity and progress' (Observatoire de la Finance, 2015).<sup>3</sup>

These few remarks on financialization are only meant to point to the undeniable fact that financialization, in one form or another, has taken place and become a major challenge, along with globalization and sustainability. Therefore, the question of innovation in and of business ethics takes on particular importance in several respects.

First, investment banks have created a host of new and highly complex financial products that are hardly understandable even by financial specialists. But in many cases, upon sober analysis, these products are new without adding economic value. They may help to make a lot of money in the short run, yet they fail to create wealth in a genuine sense.

Second, the Wall Street business model has been transformed from financial services to proprietary trading (see Santoro and Strauss, 2013, Part II) and hailed as innovative. Irrespective of the final regulation by the so-called Volcker Rule (that is, the separation of commercial and investment banking), this business model is seriously challenged in how it produces more than an accumulation of financial assets and creates wealth in a comprehensive sense.

Third, from a macro perspective, the role of the financial services industry in the economy and society can be questioned with good reason.

It is fair to say that this industry has gained a disproportionately large influence on the real economy, dominating rather than serving it. Not surprisingly, Christine Lagarde, Managing Director of the International Monetary Fund (IMF), has called upon the financial services industry to serve again the broader economy and society. So we may ask what ethical innovations in finance are necessary to achieve this goal.

### 1.3 CONCEPTUAL CLARIFICATIONS OF BUSINESS ETHICS, INNOVATION, AND CREATIVITY

Having highlighted the context of globalization, sustainability, and financialization, I now turn to the main theme of the book and provide some conceptual clarifications that may help to situate the following chapters and encourage fruitful conversations.

#### 1.3.1 Business Ethics

While the term ‘business ethics’ in English (and other languages as well) can carry multiple meanings, it is understood here in a comprehensive and differentiated sense, as it has evolved in recent years under the influence of globalization (see Enderle, 2003; Rossouw and Stückelberger, 2011). Business ethics (or business and economic ethics) covers the whole sphere of economic life from the ethical perspective. Accordingly, its fundamental task is to enhance the ethical<sup>4</sup> quality of decision-making and action at all levels of business: at the personal (micro), organizational (meso), and systemic (macro) levels. When facing complex issues, business ethics has to adopt a multilevel approach and account for the freedoms and constraints at each of these levels and, moreover, for the interrelationships between these levels.

In addition to this three-level approach, business ethics as applied ethics has to deal with the relationship between ethics and its field of application. To capture this relationship, we propose adopting a two-legged approach that gives equal importance to the descriptive-explicative and the normative-ethical dimensions and strives to integrate them in a balanced way (see Enderle, 1999). Competencies in business and economics (and other fields) as well as in ethics are required. The two dimensions of the subject matter should be distinguished, but they should not be split into two separate realities as if business and economics were in one world and ethics in another.

Given these fundamental distinctions, ethical innovation in business and the economy comprises the levels of individuals, organizations, and

systems and includes both a descriptive-explicative and a normative-ethical dimension. Accordingly, several key aspects of ethical innovation in business and the economy are further explained.

### **1.3.2 Innovation, Invention, and Creativity**

Innovation has become a catchword to attract a great deal of attention in business and economic policy and far beyond. It is praised as a key driver of increasing productivity and thus economic growth. Companies and countries that are in the forefront of innovation are said to win the race for global advantage. So what do we mean by innovation?

There are multiple definitions of innovation that might be appropriate in accordance with specific contexts (see OECD, 2012 and 2013a).<sup>5</sup> However, in the interest of meaningful communication, a commonly agreed understanding of key terms appears to be useful. Therefore, I propose a few conceptual clarifications. They mainly correspond with (although sometimes differ from) the extensive elaboration that George Brenkert undertakes in his chapter 'Business, Moral Innovation and Ethics' in this volume.<sup>6</sup>

In their excellent book, *Innovation. A Very Short Introduction*, the authors Mark Dodgson and David Gann define innovation as 'ideas, successfully applied in organizational outcomes and processes' (2010, p. 14).<sup>7</sup> The authors focus on innovations other than those described as 'continuous improvement' that tend to be routine and highly incremental in nature. Their concern lies rather with ideas that stretch and challenge organizations as they attempt to survive and thrive. 'By concentrating on innovations beyond the ordinary that occur in both the outcome of organizational efforts and the processes that produce them, we capture a great degree of what is generally understood to be innovation' (p. 14). The wide range of phenomena that fit this definition is extensively discussed in this book and others.

This definition points to two components that characterize, in varying forms, many other definitions as well: innovation is the novel outcome of human intellect and the realization thereof in concrete matters. On the one hand, innovation originates from human thought and imagination, the search for and finding of ideas; on the other hand, it is about making the ideas work and applying them successfully to the material world. Imagination is crucial, but only as the first step. Successful application is the necessary second step. Therefore, innovation should not be equated with imagination and invention since innovation includes both thinking and doing. As mentioned, this crucial distinction has been emphasized by Landes with regard to the Industrial Revolution that happened in Europe.



The first component of 'ideas' (beyond the ordinary) points to human ingenuity driving individuals and teams (highlighted by Brenkert as well) and allows for a wide range of gradual to radical innovation (criticized by Brenkert). The second component (that is, 'realization in concrete matters') relates to doing, making, and behaving (like Brenkert) and the context or framework in which innovation appears (like Brenkert). But it also stresses the importance of successful application (rejected by Brenkert), meaning innovation made feasible in economic and financial terms. The electric car can serve as an example to illustrate the difference: as long as electric cars are so costly and inaccessible that only the wealthy can buy and use them, innovation has not yet 'created the market'.

Obviously, 'success' can be defined in different ways. A helpful economic distinction is proposed by Mezue et al. (2015) who identify three varieties: (1) 'sustaining innovation' – that helps to replace old products with new and better ones (which is, by nature, a substitutive process); (2) 'efficiency innovation' – that helps companies to produce more for less; (3) 'market-creating innovation' – that transforms products and services so costly and inaccessible that only the wealthy can buy and use them, into offerings cheap enough and accessible enough that they will reach an entirely new population of customers. This variety of innovation creates new growth and new jobs. Referring to the example of the electric car, it might have been a 'sustaining innovation' already in the 1970s (as Brenkert suggests); however, only at present might it become an 'efficiency innovation' and a 'market-creating innovation' (in other words, successful in the triple sense).

Innovation defined as the successful application of ideas or the accomplishment of a worthwhile objective (Dees et al., 2001, p. 162) implies an evaluation of what success or an accomplished worthwhile objective is. It involves certain norms and values, which might be ethical or unethical (a point strongly emphasized and developed by Brenkert). In other words, such ethical implication is unavoidable; it is not only about 'doing' but also about doing 'the right thing'. Admittedly, Dodgson and Gann do not elaborate the ethical dimension in their 'very short introduction' to innovation. But in the last chapter on building a smarter planet, they explicitly speak of greater ethical and responsible decision-making, sustainability, intuition and judgment, tolerance and responsibility, diversity of interests and cross-cultural sensitivities. It is no exaggeration to say that building a *smarter* planet implies building a *more ethical* one.

Furthermore, as Dodgson and Gann emphasize, innovation (as process) is risky in multiple respects and leading to *failure* (Chapter 3) and fear. Numerous applications of ideas do not succeed, and change just for the sake of change is not the way to go. Nonetheless, the attitudes of

‘curiosity’, ‘risk-taking’, and ‘*joie de trouver*’ (see Landes, 1999), supported by an environment that provides free space, are essential for innovation. It goes without saying that, along with risk and uncertainty, the ethical assessment and guidance of innovation becomes even more challenging.

In line with the three-level conception of business ethics, Dodgson and Gann (2010, pp. 22 and 26) distinguish the level of *individual* innovators, entrepreneurs, and managers (for example, Thomas Edison); the level of business strategy for *organizational* innovation (for example, IBM); and the level of economics for *national* innovation systems performance (which should be supplemented by *global* innovation systems; see Atkinson and Ezell, 2010). It is noteworthy that each level has its particular challenges of complexity, predictability, and governance; and the more aggregate the level is, the more complex, the less predictable and the more difficult to govern the challenges it becomes (see the Level I, II, and III Technology in Allenby and Sarewitz, 2011).

In *practical* terms, one can distinguish seven forms of innovation situated mainly at the micro- and meso-levels (see Kickul and Lyons, 2012, pp. 45–6):

- creating new products, services, programs or projects;
- producing a new process or delivering an existing product, service, program or project (for example, Habitat for Humanity);
- delivering an existing product, service, program or project to a new or previously underserved market (for example, Grameen Bank);
- utilizing a new source of labor or other production input (for example, Greyston Bakery of Yonkers);
- implementing a new organizational or industrial structure (for example, community development banks);
- implementing new ways of engaging ‘customers’ or target beneficiaries;
- utilizing new funding models.

To sum up, innovation consists of the following features. It means the successful application of ideas beyond the ordinary that can lead to gradual change or great disruption. It is about making something new that has ethical implications. It requires curiosity and a risk-taking attitude. It can occur at the individual, organizational, and/or systemic levels and take multiple forms of products, services, processes, business models, systemic disruptions, and other changes.

Innovation differs from imagination and invention by transforming new human thinking into new practical doing, making, and behaving. Innovation in business and the economy means to make things new and feasible in economic and financial terms, implying an ethical dimension. I propose defining creativity not merely as a cognitive activity like imagination and invention (as Kickul and Lyons, 2012 do). Rather, creating means making something new and better, thus holding thinking and doing together, although in a less specific way than innovation.

#### 1.4 INNOVATION FOR WEALTH CREATION IN A COMPREHENSIVE SENSE

After elucidating the concepts of business ethics, innovation and creativity, the 'field of application' is outlined in a few strokes. How may we conceptualize 'business and the economy' and define its purpose with a focus on innovation and creativity?

Drawing on several studies (Enderle, 2009, 2010, 2011, and 2013), I propose defining the purpose of business and the economy as the creation of wealth in a comprehensive sense and briefly explaining its main features. If understood in this sense, innovation plays a central role in this field of application.

First, we begin with concentrating on the meaning of the wealth of a single nation. When we ask for the 'wealth of a nation' it is difficult to deny that wealth should encompass both *private* and *public goods*. Thus two types of assets are involved: those that can be attributed to and controlled by individual actors, be they people, groups, or organizations, and those from which, in principle, no actor inside the nation can be excluded. Such 'public goods' are defined, in economics, by the characteristics of non-rival and non-exclusive consumption. They clearly have a material component, even though it might be difficult to put a price on them. For instance, we may consider as public goods natural resources in a country, basic security, an effectively functioning rule of law, a relatively corruption-free business environment, a business-supportive culture, a decent level of education and health care of citizens, amongst others, whereas the lack thereof can be called 'public bads'.<sup>8</sup>

Ascertaining wealth in both private and public terms is necessary not only from a nation's perspective. It also matters for many other units of analysis, be they situated at the organizational, local, regional, international, continental or global levels. The prosperity of cities and local communities depends on an appropriate combination of private and public wealth. Public goods are of increasing importance to and often the

driving force for transnational regimes and institutions. Without the public good of a reasonably stable financial system, national and international finance cannot flourish and will falter. If climate change cannot be contained, large parts of the globe will be struck by environmental disasters.

Second, wealth is understood as the total amount of economically relevant private and public assets, including not only *economic capital* but also *natural, human* (in terms of health and education) and *social capital* (as in trust relations in Robert Putnam's sense). It is noteworthy that all four types of capital are essential and relate to the three dimensions of sustainability: the economic, social, and environmental.<sup>9</sup> Moreover, 'economically relevant' means all types are necessary and instrumental for the creation of wealth. Of course, this does not imply that their intrinsic values are denied.

Third, the 'creation' of wealth is more than possessing or acquiring wealth and constitutes a special form of increasing wealth. As discussed in the previous section, to create is to make something new and better. So it does not suffice to make something new; it is also necessary to make it better in a qualitative sense, which, of course, can take multiple forms. I suggest, for the time being, using the characteristics of the patent to define what new and better is, namely to be novel, useful, and socially relevant. In addition, as Landes emphasizes, creating in business and economic life means turning inventions into innovations by making them feasible and successful in economic and financial terms.

Fourth, wealth creation is not a short-term affair, but evolves in a long-term horizon. It is 'sustainable' (as defined above), stretching over several generations and including an economic, a social, and an environmental dimension. It is proposed to substantiate the 'needs' of the present and future generations in terms of human capabilities or 'real freedoms that people enjoy' (Sen, 1999, p. 3; 2009, pp. 248–52). This inter-generational and three-dimensional meaning starkly contrasts with many notions of sustainability (for example, of profit) that ignore the three dimensions and focus only on the capacity of business to maintain its functioning over a longer period of time.

Fifth, it would be an all too common mistake to conceive the process of creation as merely a production process, followed by a process of distribution, according to the saying that 'one first has to bake the pie before one can divide it'. This view ignores the fact that production actually involves a distributive dimension, permeating all of its stages from the preconditions to the generation process, the outcome, and the use for and allocation within consumption and investment. In fact, the *productive* and *distributive* dimensions of wealth creation are intrinsically

interrelated. This holds not only for the economy of a nation but also for economic organizations such as private companies. For instance, one might recall the different pay ratios between chief executives and common employees in various countries and their impact on the productivity of the companies.

Sixth, an essential component of any economic system is its motivational structure. What motivates people, companies, and countries to engage in wealth creation? Common answers in the economic and sociological literature are self-interest, greed, the will to survive, the desire for power aggrandizement, the enjoyment of riches, and the glory, honor, and well-being of nations. However, these motivations, taken individually or in mixed combinations, are rarely related specifically to the creation of wealth, but instead drive economic activities in general and, most often, incite merely the acquisition and possession of wealth. When economic activities clearly focus on wealth creation, other motivations such as the entrepreneurial spirit, the desire to serve others, and the '*joie de trouver*' (see Landes above) become more important. Generally speaking, self-regarding motivations may suffice to create private wealth. But the creation of public wealth needs other-regarding motivations. And if the wealth of a nation or another social entity is a combination of private and public wealth, a mix of self- and other-regarding motivations is necessary.

Seventh, wealth creation in this comprehensive sense has both *material* and *spiritual* aspects and is therefore a noble activity. For example, as the Grameen Bank can illustrate (see Enderle, 2004), providing poor women with fair micro-credits in order to become productive and move out of poverty is not a merely material and financial process, but, by strengthening their self-confidence, has a spiritual aspect as well. Or, by offering sophisticated medical equipment to patients, Medtronic not only sells material products but strives to live up to its mission of 'alleviating pain, restoring health, and extending life', which clearly also includes a spiritual aspect (see Murphy and Enderle, 2003). In other words, wealth is not a merely material matter. Because it also comprehends human and social capital, wealth comprehends human beings and thus includes a spiritual aspect that is conceivable, of course, in many variations.

To conclude, in all these seven features of wealth creation, ethical innovation plays a crucial role. Innovation, for the better or worse, shapes the contents of wealth: economic as well as natural, human, and social capital. While it may contribute to growth by increasing productivity and enhancing competitiveness, it also matters for inclusive growth and development by bridging productivity gaps as well as benefiting and activating low- and middle-income groups. Ethical innovation proves its

success in a long-term horizon that is sustainable and measurable in terms of human capabilities. It involves not only material and technological but also spiritual and human aspects. It is truly making something new and better, driven by motivations that are other-regarding as well as self-regarding.

## 1.5 OVERVIEW AND INTRODUCTION TO THE SUBSEQUENT CHAPTERS

What has been explained in broad terms in the previous sections is now substantiated in many respects in the remainder of the book. The overview is structured in four parts. The first part provides some conceptual, theoretical, and methodological clarifications relevant for the three following parts that deal with ethical innovation at the individual (micro-), organizational (meso-) and systemic (macro-) levels. Underlying each part is the two-legged approach that balances the descriptive-explicative and normative dimensions of the subject matter, although articulated in different ways.

George Brenkert's contribution in Chapter 2 of Part I Conceptual, Theoretical, and Methodological Clarifications seeks to start a discussion about moral innovation itself, its role in business and how such innovations might be evaluated. His conceptual and theoretical clarifications provide a solid foundation for the theme of this book in general and for several chapters in particular (Chapters 4, 6, 7, 10, 12, 13, and 14). Despite the significance of innovation, he notices that the area of morality has been quarantined against any innovations. Yet moral innovation involves something distinctively new in that it alters how people believe and behave regarding some aspects of their lives. Brenkert explores fascinating perspectives of this woefully under-discussed topic in ethics as well as in business ethics.

When facing complex ethical problems, assigning responsibility is a difficult undertaking with far-reaching consequences. If it were merely a matter of either taking individual responsibility or relying on institutions alone, shortcut solutions would be quickly at hand. In Chapter 3, Thomas Beschorner and Martin Kolmar address this foundational issue by arguing for a multilevel approach that rejects this either/or thinking. They propose using an extended transaction cost approach (inspired by economics) in order to determine a fair sharing of moral responsibilities among individual and organizational actors and social institutions. As moral agency and institutions are interdependent – which is quite obvious from a dynamic perspective – they not only shape but also are shaped by each

other. This multilevel approach implies that governance is important at each level and requires coordination to address complex ethical problems. It informs a useful space for bottom-up movements to be discussed in Chapters 6, 7, 10, 12, and 14.

While the previous two chapters deal with basic conceptual and theoretical problems, Chapter 4 by Christoph Luetge and Matthias Uhl focuses on an innovative methodology, that is, on an experimental approach to ethics. The contributions of experimental disciplines are particularly important if business ethics is to be understood as an interdisciplinary field that includes not only a normative-ethical but also a descriptive-explicative dimension. After a brief summary of experimental philosophy and experimental ethics with its philosophical precursors, the chapter explores future opportunities and key research questions of experimental ethics. Drawing on recent ethical experiments, it discusses practical implications and possible types of criticisms.

The second part of the book – Individual Initiatives for Ethical Innovations – presents three contributions on how individual actors (at the micro-level) can make ethical innovations. In Chapter 5, Nien-hê Hsieh examines managerial responsibility and develops an alternative to shareholder primacy. He criticizes the view that defines the responsibilities of managers merely in terms of constraints or negative moral duties (for example, the duty not to harm). Rather, managers have the duty to do their jobs well, that is, to help realize important market-specific social values that are consistent with a minimal liberal set of normative commitments. These values ground managerial responsibility to pursue specific ends and define the purpose of business. To illustrate this novel account of managerial responsibility, Hsieh analyzes three examples regarding opportunities for health, strengthening institutions, and lobbying and political activity.

In Chapter 6, Joanne Ciulla compares the actions of ethically innovative leaders with drops of water in a pond. They often radiate out like ripples into larger spheres, from the personal, to the organizational, and finally to the systemic level. Recalling key notions in leadership studies such as vision, moral imagination, and ethics and effectiveness, she applies them to a timely challenge for business leaders, namely to pay their employees living wages (with a focus on the fast food and other industries). Ethically innovative leaders can fix this problem if they are willing to make waves by thinking of business as a means of improving the well-being of all stakeholders, including employees.

The third contribution on individual initiatives for ethical innovation is Daryl Koehn's chapter (Chapter 7) on the Maker Movement, which consists of individuals who are consistently dedicated to making their



own things by using advanced technology. They are manufacturing robots and cars and even producing designer *E. coli* bacteria. As noted in various chapters (particularly this present chapter, 2, 6, 13, and 14), innovation can be either ethical or unethical. Connected with the new developments in production and distribution of goods, there are numerous ethical upsides and equally numerous ethical downsides. The challenge for ethicists and practitioners is to realize the former while minimizing the latter.

Part III *Toward Innovative and Ethical Organizations* includes four contributions situated at the meso-level of analysis. In the wake of the global financial crisis and the Great Recession of 2008–11, the call for taming and reining in traditional joint stock companies has become particularly vigorous. Eleanor O'Higgins in Chapter 8 addresses the question of whether cooperatives present a real alternative business model to traditional capitalist enterprises. After characterizing cooperatives with their benefits and challenges, she compares two case examples from the United Kingdom: the John Lewis Partnership (JLP) and the Co-operative Group. Her comparative analysis points to four crucial elements of good governance in cooperatives: member voice, representation, expertise, and management. Both successes and failures in these four elements are intertwined. In the case of JLP, this resulted in a virtuous cycle. By contrast, the Co-operative Group failed by adopting neither the model of the cooperative nor of the publicly listed corporation. She concludes by stating that a diverse array of cooperatives and other organizational forms will continue to exist side by side as ways to carry on value-adding economic activity.

While Ciulla discusses the business leaders' responsibility for paying people a living wage in low wage industries, Michael Santoro focuses in Chapter 9 on executive compensation in the financial industry. He highlights the important role of cash-based incentive compensation in the financial crisis, which contributed to the failure of many firms and the accumulation of trillions of dollars of systemic risk. A brief survey then recalls important legal and industry-related reforms of executive compensation that have been undertaken to date in the United States and Europe. By examining the infamous London Whale trade of JPMorgan Chase, Santoro demonstrates the need for innovative approaches to linking executive compensation more closely to risk management and concludes with suggesting a number of elements for an innovative compensation system.

In Chapter 10, Knut Ims and Laszlo Zsolnai broaden the perspective on innovative organizations from Western countries to South America, Egypt, and India. In critique of the so-called 'devil's doctrine' and the



'economic doctrine' they present and analyze successful 'social' innovations that not only serve the interest of commercial markets but also advance social development: the Economy of Communion experiment, the SEKEM experiment and the Aravind Eye Care System experiment. All three experiments distinguish themselves by their particular inspiration, vision, means, and outcome and therefore challenge the worldwide recognized business model of the 'bottom of the pyramid' approach by C.K. Prahalad (see Prahalad and Hart, 2002) – this challenge will be further articulated and addressed in Chapters 12, 13, and 14.

The third part of the book concludes with Chapter 11 on corporate reporting by Antonio Tencati. Corporate performance has been conceptualized and measured in multiple forms that traditionally focus on financial and economic aspects while disregarding social, environmental, and governance aspects. Tencati presents and analyzes in detail major initiatives for sustainability evaluation and reporting. While acknowledging their progress compared to mainstream reporting, he criticizes the fact that they do not clarify what is the (not only monetary) value provided by the firms to the different constituencies. Therefore, he proposes an innovative scheme for stakeholder-based and integrated reporting, the so-called Sustainability Evaluation and Reporting System (SERS<sup>2</sup>).

In line with the three-level conception of business ethics, Part IV addresses 'Systemic Changes for Ethical Innovations' that concern capitalism in the twenty-first century, a comprehensive marketing model for the poor, and an innovative approach to bridging the gap between the informal and formal economies. Patricia Werhane and David Bevan in Chapter 12 take up the critical view of present day 'market capitalism' – already expressed in Chapters 7, 8, 9, and 10. They rectify the widely held misinterpretation of Adam Smith's understanding of free enterprise and demonstrate with numerous examples the flourishing drive of alternative businesses in different parts of the world. This constructive trend from the bottom-up is articulated and exemplified also in other chapters, particularly in Chapters 3, 7, 10, 12, and 14.

While concrete examples of social innovation always contain descriptive and normative aspects, Chapter 13 by Gene Lacznik and Nicholas Santos proposes a normative-ethical model for marketing. It outlines what is owed to vulnerable, impoverished consumers when they enter into marketplace transactions with more powerful sellers. Needless to say, such a model is relevant for developing and developed countries alike. The authors identify, discuss, and justify five prescriptive components of the so-called 'integrative justice model': (1) authentic engagement without exploitative intent; (2) co-creation of value with customers;

(3) investment in future consumption; (4) genuine interest representation; and (5) focus on long-term profit management.

The concluding chapter by Peter John Opio opens up a widely ignored but hugely important new perspective on business and the economy as we normally understand them. His contribution is based on groundbreaking experiences in African countries and shows that innovation can – and often does – happen in informal firms and economies (arising, again, from the bottom-up). This innovation is vital for the survival of the poor – beyond an integrative justice approach of marketing. As with other innovations, however, it merits ethical scrutiny and examination. At the same time, it can inspire businesses in the formal economies to become more creative, which has been demonstrated by the outstanding examples of the Nigerian Nollywood film industry and the cellphone-based M-Pesa banking from Kenya.

## 1.6 CONCLUSION

Against the backdrop of globalization, sustainability, and financialization, the book opens up a wide range of perspectives. The introductory chapter has attempted to highlight a number of intriguing views and indicated multiple connections among the various chapters. For sure, many more perspectives and connections need to be explored and addressed. Ethical innovation in business and the economy is an enormous challenge today – truly a challenge that cannot be postponed.

## NOTES

1. In addition to the market, Landes also acknowledges other important reasons for the ‘invention of invention’: the Judeo-Christian values of respect for manual labor, subordination of nature to man, and the sense of linear time (Landes, 1999, pp. 58–9).
2. Krippner looks at the activities of both financial and non-financial firms and uses two distinct measures to gauge financialization: (1) ‘portfolio income’ (comprising income from interest payments, dividends, and capital gains on investments) relative to revenue generated by productive activities on the side of non-financial firms, and (2) the profits generated in financial and non-financial sectors of the economy. The data show a considerable degree of financialization with regard to the ratio of portfolio income to corporate cash flow and to the ratio of financial to non-financial profit.
3. Financialization is also presented as a main characteristic of the world of business today in the document *Vocation of the Business Leader. A Reflection* (PCJP, 2012, Secs. 17, 22, 23).
4. In this chapter the adjectives ‘moral’ and ‘ethical’ are used synonymously.
5. These OECD reports use the OECD/Eurostat (2005) definition of innovation as ‘new and/or significant improvements to existing goods and services’. It goes beyond a ‘technology-based perspective’ and includes ‘frugal innovations’ (modifying existing technologies or

- products so as to supply lower-income markets) and ‘grassroots innovations’ (adopting novel approaches to using existing technologies in a given local context).
6. A relatively early publication on business ethics and innovation is Hanekamp (2007).
  7. Like Landes, the authors, in 2008, define the term as follows: ‘Innovation is much more than invention – the creation of a new idea and its reduction to practice – and it includes all the activities required in the *commercialization* of new technologies (Freeman and Soete, 1997). Essentially, innovation is the successful commercial exploitation of new ideas. It includes the scientific, technological, organizational, financial, and business activities leading to the commercial introduction of a new (or improved) product or service’ (Dodgson et al., 2008, p. 2; original emphasis).
  8. Public goods can be qualified in normative-ethical terms as human rights with the characteristics of non-rivalry and non-exclusivity (see Enderle, 2015).
  9. These four types of capital are also essential in the OECD well-being framework by linking flows and the management resources (investment, depreciation or depletion, and emissions or waste) to well-being outcomes (defined with 11 categories; OECD, 2013b). The International Integrated Reporting Council recommends six types of capital: financial, manufactured, intellectual, human, social and relationship, and natural (IR, 2013).

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