Virtues, the Common Good, and Business Legitimacy

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Abstract

When it comes to contributing to the wider society's common good, organizations' considerable ethical failures have weakened overall trust in business firms. Mainstream legitimacy theory fails to address normative issues on the ethical responsibilities of management toward and the role of business in society. This chapter reviews the main approaches to business legitimacy linked with institutional theory in light of the virtue ethics tradition to show how a virtuous management paradigm can enable a better relationship between the firm and its stakeholders, promoting their well-being and contributing to the common good of society as a whole. To facilitate a richer and more nuanced understanding of virtue ethics' concerns, it applies key terms from Aristotelian virtue ethics to discussion of the role of management and ethical communication in the context of business legitimacy.

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Introduction

When it comes to contributing to the wider society's common good, organizations' considerable ethical failures have weakened the community and polis' overall trust in organizations (Pirson et al. 2019; Sethi 2002). As a result, organizations, especially among the top echelon, are expected to provide detailed accounts of their actions, decisions, and performance that goes way beyond financial performance and moves into territories that touch on (un)ethical conduct (i.e., reports on societal and stakeholder impact, environmental impact, and impact on personal well-being of key groups involved) via legal, accounting, oral, written, formal, and informal communication channels signed by executives themselves (Ferns et al. 2008). How organizations and top executives communicate on these matters corresponds to a field of research called (organizational and leadership) accountability research; the concept is understood in the literature as something that organizations owe (Swift 2001; Gray et al. 1997). Therein, organizations' license to operate involves a duty to justify their actions to society at large and to account for sustainability, transparency, and accountability strategies – or the right to hold people responsible for their actions (Bivins 2006).

One of managers' key roles includes their responsibility in terms of accountability. Organizational and management accountability has been dealt with mostly through corporate social responsibility (CSR), accounting, and legitimacy-related literature. In this chapter, we briefly review the legitimacy literature that springs from institutional theory, then juxtapose different views on legitimacy and accountability from the perspective of virtue ethics, and finally attempt to link it with the concept of the common good, the role of firms, and management. With regard to understanding business and management accountability, we aim to go beyond the current legitimacy and CSR literature, joining scholars of business ethics such as Garriga and Melé (2004), who argue that organizations have an **essential ethical responsibility** to society at large and to specific groups with which they relate inside and outside of the firm. This enables wider flourishing and the common good (Sison and Fontrodona 2012), which, in turn, goes beyond the need to legitimize others' assumptions, as well as beyond legal and economic responsibilities. In addition, we will present Aristotelian notions of *ethical communication* that emanate from a virtuous character, what it entails, and how it is part of managers' ethical accountability. We will argue that virtuous organizations and managers who act in the unity of virtue can significantly strengthen all stakeholders and groups, enabling them to mutually grow while developing their relationships (Flyverbom et al. 2019; Trevino et al. 2000).

An Overview of Business Legitimacy

Legitimacy is an established, mainstream concept in social and organizational studies (Deephouse and Suchman 2008; Hannan and Freeman 1989; Dowling and Pfeffer 1975; Hybels 1995; Suchman 1995). Legitimacy literature and its main assumptions spring from institutional theory, whereby legitimacy is the central concept that articulates and influences stakeholders to hold positive perspectives concerning a business or organization's social acceptability or credibility (Suchman 1995; Scott 2008; Deephouse and Suchman 2008). The institutional theory rationally justifies the duty of legitimacy as managerial accountability, which includes influencing beliefs that align with a positive reputation or effectively address critiques or a weakened reputation to increase stakeholders' trust, which facilitates positive reputation (and share price) for the benefit of shareholder interests.

Accordingly, key contemporary legitimacy authors argue that, in order to survive in their social environments and to maintain prosperity and a license to operate – i.e., to be "legitimate" – an organization is granted a social license when its operations, values, and underlying processes meet stakeholders' expectations and needs and satisfy societal norms (Dare et al. 2014). For that to happen, more than just technical information and material, financial, and human resources are needed. An equally key variable arises in the form of social acceptability and credibility, that is, *legitimacy* (Scott et al. 2000). Institutional theorists Meyer and Rowan (1977) argue that legitimacy is an asset that provides a reservoir of trust and support among external resource holders, enabling an organization to access scarce resources and keep afloat.

Suddaby and colleagues (2017) suggest that key theories define legitimacy as an ongoing process and not as "a state of equilibrium" that is seen (1) as an organizational resource/*property*, (2) as a *process of social interaction* (the essence of legitimation, which we explain later), or (3) as a socio-*cognitive perception* or *evaluation* (Suddaby et al. 2017). The most prevalent theory involving the concept of legitimacy is from Suchman (1995) whose understanding of it follows a tradition in organizational studies based on Max Weber's *Economy and Society* (Suchman 1995); he defines it as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman 1995: 574). There are two other noteworthy definitions of organizational legitimacy in the literature that Suchman (1995) cites, conceptualizing it as follows: (1) as "the extent to which the array of established cultural accounts provide explanations for [an organization's] existence" (Meyer and Scott 1983: 201) and (2) the "congruence between the social values associated with or implied by [organizational] activities and the norms of acceptable behavior in the larger social system" (Dowling and Pfeffer 1975: 122). Whereas the former definition focuses on the cognitive nature of the concept, the latter emphasizes a cognitive-evaluative aspect, arguing that organizations do not need to be explicitly accounted for (from managers to society); rather, managerial impression management action is key for influencing evaluations that affect sociocultural stakeholders' view(s) of an organization.

On the one hand, in this literature, legitimacy is seen as an institutional attribute, a part of a robust brand maintenance strategy. On the other hand, legitimacy equally captures the social practice of legitimation as an ongoing effort and can be extended, maintained, and defended (Ashforth and Gibbs 1990). The idea is that gaining acceptance, i.e., mastering this social practice, relies on convincing different groups to consider that what the business does/is is acceptable because it possesses distinct characteristics from established categories (Galaskiewicz and Barringer 2012). Therefore, *actively managing legitimacy* is a key strategic-cognitive aspect of management and organizational roles (Kostova and Zaheer 1999; Vaara and Tienar 2008). This *legitimation processes* involve "specific, *not always intentional or conscious*, ways of employing different discourses or discursive resources to establish legitimacy" [*emphasis added*] (Vaara et al. 2006: 794).

There are several analytic sub-constructs and dimensions of legitimacy (Deephouse and Suchman 2008); the key ones include the following: (1) **pragmatic** legitimacy, pragmatic legitimation strategies aim toward gaining the support that an organization enjoys based on "self-interested calculations" regarding its primary audiences to perceive that they enjoy individual benefit from it (Suchman 1995: 578); (2) **cognitive** legitimacy, cognitively mastering the clash of worldviews that result from relativism (cognitive legitimacy) via influencing audiences' cognition rather than their self-interests in the desired direction (Suchman 1995); and (3) **moral** legitimacy, which is based on positively influencing judgments of right or wrong in favor of an organization (Suchman 1995; Tost 2011). The latter is defined as the "positive normative evaluation of the organisation and its activities" (Suchman 1995: 579).

Subjectivity and amoral relativistic ethical assumptions underpin the key importance of these three forms and effective organizational and managerial legitimation strategies. When it comes to moral and pragmatic legitimacy, mastering management defines the ability to choose a discursive evaluation strategy to effectively manage legitimacy vis-à-vis an audience (Suchman 1995). Mastery of the open discursive process entails different key audiences (stakeholders) arriving at positive cost-benefit ethical judgments and appraisals through explicit public communication. These forms suggest that vigorous participation in such public forums allows organizations to increase moral and pragmatic legitimacy. But cognitive legitimation is seen as being less subject to discursive construction; in line with Suchman (1995: 585), it involves underlying (held) assumptions that different publics hold, which are not spoken or articulated in language. Heated (spoken, orally communicated) defenses of organizational endeavors tend to imperil the objectivity and exteriority of said taken-for-granted schema.

Therefore, based on the above, legitimacy is mainly understood as an institutional, cognitive, and/or evaluative strategy that rests on managers' mastery of reason and communication processes, which unfold as strategic action involving legitimation. However, the pursuit of legitimacy is seen as a complex way to address various stakeholders as distinct audiences (possessing distinct characteristics, with different needs and expectations) such that the organization (management) faces challenges of how to **master legitimacy**. Legitimation is seen as the process through which the legitimacy of a subject is mastered and evolves over time (Maurer 1971; Ashforth and Gibbs 1990; Walker and Zelditch Jr 1993) in the direction hoped for. Effectively managing or handling such processes is seen as involving the provision of some sort of pleasure/gain for different autonomously targeted audiences (a hedonistic or utilitarian understanding that each audience sees some benefit from an entity), which is, in turn, seen as ensuring shareholders' self-interest (and enabling managerial success in the role).

From this perspective, stakeholders (especially external ones) are seen as clearly rational and seeking to maximize their interests (Ross 1973). According to the literature, a positive increase in legitimacy is seen as an asset that enables businesses growth and survival (Bansal and Clelland 2004; Dobrev and Gotsopoulos 2010; Phillips et al. 2004; Ruef and Scott 1998; Suchman 1995; Suddaby and Greenwood 2005). These assumptions are logical within a belief system that sees the firm as an economic-legal entity whose quasi-moral agency is to be a rational profit seeker that only seeks to satisfy the needs of shareholders who managers mainly represent, aligning personal and shareholder interest fulfilment with accountability performance (Jensen and Meckling 1976).

In accordance with the above, and upon review of the legitimacy literature, it should be noted that ethical communication does not appear among the key concepts and basis of this literature. Managerial accountability and role success in legitimation process management are not linked to any notion of ethical character or to the moral maturity of managers. Even when it comes to moral legitimacy, Suchman (1995), for example, assumes that managerial capacity for effective impression management is key, while regarding morality through the lens of relativism and subjectivism. Hence, the legitimacy literature is weak in identifying an ethical basis for linking business, management, and society; instead, it sees legitimacy mostly as a cognitive act involving competent impression management over complex audiences. For example, in the literature on entrepreneurs' legitimacy management, Aldrich and Fiol (1994: 645) examine the *strategies* entrepreneurs might formulate in emerging industries where both cognitive and sociopolitical legitimacies are weak. Through this cognitive process, managers and key organizational representatives choose how best to engage in different kinds of impression management work to effectively master the (open, processual, pluralistic) legitimation process in order to influence various audiences' cognitions and feelings about an organization. However, therein, the management of legitimacy is a rather amoral task that requires technical, strategic excellence involving three key interrelated tasks: gaining, maintaining, and repairing legitimacy (Suchman 1995).

Legitimacy is therefore thought of in terms of separation, i.e., the idea that arguing economic and ethical responsibilities involves two separate domains (Freeman 1994, 2000). Supporting the critique that the literature supports an amoral techno-rational role for managers, we draw on Swanson (2018a, b), who argues that managers that excessively hold on to this notion of separation tend to develop an amoral or immoral view of business decisions, including how to go about their accountability responsibility as a moral-ethical act. Swanson suggests that a sense of separation prevents a coherent theory of ethical and responsible leadership with the assumption of the separation thesis that weakens managers' sense that they are part of a wider ethical community with a commitment to the possibility of shared flourishing through business (economy) and society more broadly. These critiques can be addressed once business (and management) legitimacy are understood from a virtue ethics perspective on the common good and managerial virtue.

A Recovery of Virtue Ethics and Its Application to Business

For its part, virtue ethics (henceforth, VE) is a long-standing Western tradition that was initiated in Greece, with eminent thinkers like Socrates, Plato, and Aristotle, and continued into the Middle Ages (especially with Thomas Aquinas) but largely lost favor in modernity (MacIntyre 1967). It regained philosophical interest in the second half of the twentieth century (Chappell 2013; MacIntyre 1981; Melé 2012; Sison and Ferrero 2015). Since then, its application to the business world has increased significantly, even gaining ground over other, more mainstream approaches, namely, Deontology and Utilitarianism (Koehn 1995; Chun 2005; Melé 2009; Ferrero and Sison 2014).

Although there are different streams among virtue ethicists – including Neo-Aristotelians, Confucians, Humeans, Smithians, Nietzscheans, etc. – its main branch focuses on a recovery of the Aristotelian tradition (Hartman 2008; Ferrero and Sison 2014) and Thomistic moral philosophy (Koehn and Wilbratte 2012). "Etymologically, 'virtue' comes from the Latin word *virtus*, which in turn originates from 'vis,' meaning 'force,' 'power,' or 'strength.' *Virtus* is the Latin translation of what was, originally, a Greek concept, *arête*, which stands for 'what is best' or 'excellence' in human beings" (Sison 2015: 241–242). Indeed, for Aristotle, virtue is an excellence that consists in "living or doing well" (Aristotle 2009, NE 1095a) in accordance with rational activity; in other words, it corresponds to what is best in human beings. This excellence is attained based on personal traits, in particular, prudence or practical wisdom (*phronesis*), which refers to the habit of acting correctly (Solomon 1992; Moberg 2008), especially in supporting the good in social matters.

Hence, the idea of virtue plays a central role in the development of man's natural capacities in community in order to attain his highest aim: happiness and excellence (*eudaimonia*, usually translated as human flourishing). For Aristotle, the focus is not on action but rather on the agent: "*Virtue ethics* tell us that what is right is *to be a certain kind of person*, a person of virtue" (Zwolinski and Schmidtz 2013: 221, *emphasis added*). A virtuous agent (a person understood as a unity of virtue) freely chooses to act fulfilling the moral accountability we have to one another as linked to the possibility of human flourishing, which is only possible in community and finds its fullest meaning when directed toward the good of the community, that is, toward the common good (Sison 2015). More specifically, personal flourishing or happiness is to be found in sharing a good life with family, friends, and fellow citizens (Aristotle 2009, NE 1097b). Human goods such as friendship, education, work, health, and religion are achieved in human communities, and only in this way do they help constitute *eudaimonia* (Sison and Ferrero 2015).

From a VE perspective, "the human good turns out to be the soul's activity that express virtue" (Aristotle 2009: 1098a). In the case of business firms, they are intermediate associations (Sison and Fontrodona 2012, 2013) whose aim is to attain a common good (Sison 2016): "[t]he common goods of those at work together are achieved in producing goods and services that contribute to the life of the community and in becoming excellent at producing them" (MacIntyre 2016: 170). In other words, the firm is defined as a community of work (Solomon 1992) whose purpose is to offer products and services to satisfy material needs and promote well-being (Kennedy 2006) in a sustainable, productive, and profitable way (Melé 2012).

Personal development among its members is more important than any other good that the firm can achieve. Therefore, when the firm establishes different forms of collaboration with its stakeholders, a common good approach identifies a socially responsible action in that the intention behind it is not so much focused on strategic advantage as it is on the development of other people and communities within the firm's regular activities. When firms are described in terms of the common good, CSR becomes a matter of personal virtue and social justice. Concerning the former, corporate responsibility to the common good is based on the moral status of persons as moral agents, in their capacity to assume responsibilities with society. As a matter of justice, a socially responsible action is a basic moral duty to other people's development and thriving when in direct or indirect relationships with them (Finnis 2011). A commitment to the common good is possible via personal virtue in terms of friendship and solidarity.

However, the still predominant economic account of the firm – inspired by neoclassical economic theory – mainly assumes that the firm is a legal entity, a quasi-moral agent that acts within a market economy as a rational profit seeker with the only end of satisfying the needs of its immediate stakeholders, i.e., the firm's shareholders (Jensen and Meckling 1976). From this perspective, shareholders and other stakeholders (internal and external) alike are understood as clearly rational and seeking to maximize their interests (Ross 1973). Accordingly, managers are seen as agents that operate to satisfy shareholders – principals' needs and interests (Davis et al. 1997). Meanwhile, the firm's human-social fabric is perceived as a *nexus of contracts*: the firm defines its relationship with its human "resources," which it sees itself as "possessing" via the power of labor contracts. In addition, it promotes a management style based on technocratic, value-neutral, and rational behavior (Hendry 2004; Akrivou and Sison 2016).

Business Legitimacy and Management Responsibility from a VE Perspective

We will now turn to business legitimacy from a VE perspective and first explain the Aristotelian notions of the common good and *ethical communication* (Meyer 2017). We will then discuss VE assumptions regarding how both emanate from a virtuous character and what it takes to link them with basic ethical accountability for managers to enable mutual growth for all stakeholders. Legitimacy, and the very choice of actions involved in legitimation, must at its core involve a moral-ethical aspect, which, in turn, must drive managers' ends and the means with which they serve. This is entirely at odds with key assumptions of legitimacy theory today.

Assumption of shareholder primacy also implicates managers, as shareholders' legitimate representatives, in responsibility for safeguarding their own and shareholders' interests; yet, this is not a proper way of understanding issues surrounding legal status, ownership, and authority responsibility. As Mansell and Sison (2019) suggest, this idea is neither premised upon long-established tradition in the professions along economic history, nor is it in line with Aristotle and virtue ethicists: "In the Aristotelian tradition, to understand what something is, we have to inquire into its reason for being, or 'final cause'. For human beings the final cause is 'the good'. . . This final cause is called 'common' when it can be achieved only on the condition that all the individual members of a group achieve it in a non-excludable and non-rivalrous manner" (2019:11).

Hence, in virtue ethics, the concept of the "common good" underlies the firm and assumes that the good is held in common by organizational members as a community (Sison and Fontrodona 2012; Mansell and Sison 2019). So an essential collaborative activity and the joint pursuit of a common purpose gives organizational members' continuity of identity (and not to just managers and shareholders), and this is what represents the common good of the firm, which lasts and is sustainable over time (Mansell and Sison 2019). In light of the principle of subsidiarity (Melé 2005), the good of the business and any organization or institution in the sphere of the economy needs to genuinely serve the flourishing of larger collectives tied to wider political organizations.

In addition, regarding the ownership of corporations (businesses), both virtue ethics and legal scholars explain the logic of the argument against the idea of shareholders owning the corporation and thoroughly explain why shareholders who expect managers to act as their sole agents to support their interests, including the handling of legitimacy, do not do so legitimately (Mansell and Sison 2019). Some sources explain, however, that this does not mean that employees or other stakeholders – e.g., consumers, or even the community – own the corporation; instead, all of these groups are bound by their chosen responsibility to work in common (collaborating for the common good of the firm as part of the wider professional and political institutions). In the end, the corporation owns itself as an independent legal entity, as is the case for human beings (Mansell and Sison 2019; Stout 2012).

In this sense, managerial authority comes either from the collective grouping of all who are members of a body that aims for the common good (which includes, but is not exclusive to, shareholders) or from a higher superior source outside the corporation, or from both. Legitimacy in this sense is conduct of craft, which allows for a legitimate corporation to inform and show how it sustainably pursues the common good, while management would need to demonstrate that it is acting on behalf of the good of all, essentially defining an effective legitimation. Management's role in the legitimacy process becomes enabling and facilitating processes of communication and knowledge sharing (Tsoukas and Vladimirou 2001; Nonaka et al. 2008), which would allow all members who partake in that common good to exercise their duty (or right to enjoy the prosperity and well-being made possible by the corporation) in equality and in full respect of each and every entity (and the distinct persons who are members of each group).

From a virtue ethics perspective, the managerial role in legitimation processes must enable quality dialogue among its members to enable and support one another in the common pursuit of a purpose that, in this case, only needs to be a purpose in consistency with *eudaimonia.* As Mansell and Sison (2019: 11) note – quoting Vanberg – "to speak for the group per se is not to assume a reified entity that pursues 'organizational goals' independent of its members judgements and wishes."

For ethical communication that corresponds to the notion of rhetoric to capture an Aristotelian virtue ethics conception, Meyer (2017) reminds us that the communicator or the potential leader/manager has to rely on the ethical character of the communicator or his/her moral maturity (*ethos*), the quality of what is being communicated and key arguments involved in the action of communication (*logos*), and the appropriate emotional-affective disposition for listeners (*pathos*). However, the *ethos*, or character (of the manager), is the most important of the three (Meyer 2017). He or she should convince the audience that communication comes as action from a good person, who is honest, responsible, and fair-minded. *Logos* reflects the fact that the speaker has strong, reasonable, compelling, and truthful arguments; therefore, the appearance of truth via cognitive mastery of communication or the affective mastery of audiences' needs is not proper in this case (as per Meyer 2017).

Finally, the quality of ethical communication in the Aristotelian virtue ethics tradition depends on the extent to which it can trigger appropriate and good emotions among listeners or the receiving audience, in the sense that an emotional "sensation then, turn into the triggers of choice, decision and (appropriate) action" (Meyer 2017: 123) if we understand rhetoric in the Aristotelian sense. Thus, technical mastery of the audiences' needs or feelings and the clever channelling of rhetoric to influence or stimulate them do not qualify as proper ethical communication that characterizes success in a business legitimacy process but instead constitutes psychosocial manipulation of audiences to reach the speaker's ends, something that Aristotle understood as vice or *panourgia* in terms of the quality of practical excellence involved.

Conclusions

Within the above context, and the alternatives that virtue ethics lends, legitimacy as an end goal must rely on being able to choose ethical means since proper means-ends virtuous choices are an important feature of Aristotle's understanding of virtuous action in the practical sphere (NE VI). In the case of legitimacy, this means that all action should rely on genuine, ethical communication and not on bare, technically persuasive or clever rhetoric that aims toward winning the impression management game among different audiences.

However, for all the above to come together, the key antecedent is virtue in character by all who engage in legitimate work; virtue ethics purports that ethical outcomes are not possible unless the actions involved originate in virtuous persons (Hartman 2008; Zwolinski and Schmidtz 2013). A "qualified agent" (Hursthouse 1999: 28) – a person of virtue, who displays practical wisdom or *phronimos* – uses rational principles for determining what and how to virtuously ensure business legitimacy via ethical communication in order to determine the good (correct, most appropriate, virtuous) action within a context of specific and complicated particulars. This means that, to arrive at an ethically legitimate action, choices and communication do not just aim at addressing or convincing of each audience as an autonomous actor (via persuasive or effective rhetoric, so to speak). Rather, communication in consistence with virtue ethics ought to be an act of ethical development (for the self and others) where no audience's interests would have primacy over another audience's well-being.

From a VE perspective, the moral quality of leaders' personal character is elevated to a key antecedent for both proper and effective business legitimacy outcomes and for how to choose and perform means of ethical communication. In order to effectively convey genuine organizational qualities and correctly inform and engage a business with all stakeholder concerns, a leader or organizational manager must have, in accordance with Aristotle (Meyer 2017), firstly, the cardinal virtue of practical wisdom (*phronesis*, or the excellence that practical-ethical reason can acquire)and, secondly, virtue in its widest and richest sense, which encompasses richer and wider virtues attributable to "a certain kind of person with a certain complex mindset" to allow for richer and more sensitive moral processing beyond practical wisdom (Hursthouse and Pettigrove 2016). Thirdly, good will is also required (Meyer 2017).

This includes how to enable separate entities and the community of all who partake to work well together for the good as a common pursuit, how to grow in their relations in a way that allows for personal flourishing and systemic prosperity. All of this includes moral maturity, which is key (Akrivou et al. 2018). Consequently, managers (and more widely, other moral actors involved in legitimacy related work for the common good of the business on behalf of all other members, shareholders included) should already possess a mature and stable moral character. In the midst of a sensitive, complicated context and a variety of particulars, this enables (Koehn 1995) a role for virtue ethics in the analysis of business practice, a deep respect for the human dignity of all involved (Mea and Sims 2019), and an ethical awareness of professional roles beyond a mechanistic (Dierksmeier 2015) or psychologically competent anthropology (Pérez López 2002).

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