Commentary

Prioritizing Democracy: A Commentary on Smith's Presidential Address to the Society for Business Ethics

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ABSTRACT: In his 2018 presidential address to the Society of Business Ethics, Jeffery Smith claimed that political approaches to business ethics must be attentive to both the distinctive nature of commercial activity and, at the same time, the degree to which such commercial activity is structured by political decisions and choices. In what we take to be a friendly extension of the argument, we claim that Smith does not go far enough with this insight. Smith's political approach to business ethics focuses solely on the outcomes of political choices. But if we think of politics in terms of processes—as in, ongoing disagreement and contest—and not merely a series of legal, administrative, or institutional outcomes, a different view of business ethics emerges. In particular, we argue that such an emphasis points us toward seeing business actors as having a normative duty to preserve the integrity and functioning of democracy.

KEY WORDS: division of moral labor, market failures approach to business ethics, PCSR, democratic theory, realist political theory

In his 2018 presidential address to the Society of Business Ethics, Jeffery Smith (2018) noted a "political turn" in business ethics. The key idea underlying this turn has been a recognition that business ethics can fruitfully be informed by, or perhaps be seen as a part of, political philosophy. Instead of drawing on canonical moral theories and articulating businesspeople's ethical obligations in the abstract, Smith suggests that recent political approaches see business ethics as "a holistic endeavor to explain and justify the manner in which firms should navigate the messy space between being an actor in the market while also being an actor under license by the state to serve the public interest" (128). Though he doesn't quite put it this way, his argument is that while these developments have been beneficial for business ethics, the logic of the political turn has not been taken far enough.

Smith claims that we must come to grips with the need "to navigate this difficult terrain between market and state in a manner that respects capitalism's subtle differentiation of institutional roles" (137). This requires being attentive to both the

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distinctive nature of commercial activity and the manner in which commercial activity is a consequence of political decisions and choices. Smith reviews two examples of political business ethics—political corporate social responsibility (PCSR) and the market failures approach (MFA) —and claims they don't quite accomplish this: PCSR inadequately addresses the distinctive nature of commercial activity, and the MFA does not fully reckon with the political nature of commercial institutions. Smith argues that a theory of business ethics must be based on recognizing the distinct responsibilities that markets create, while also recognizing that these responsibilities are *political*—"presupposed by the morally important social values that happen to be politically layered on top of the price system of the market" (138).

Our claim in this article is that Smith does not go far enough with this insight. The relationship that Smith posits between politics, markets, and business ethics is what we might call output-oriented. Politics is understood in terms of the values it infuses into commerce through policies, laws, and other regulatory outcomes that alter the landscape of markets. Business ethics is political, in this view, because we design markets to achieve various politically-determined ends—e.g., consumer knowledge, public health, or national defense, as well as efficiency (137). In framing it this way, Smith neglects to discuss the *processes* that determine which values are "politically layered on top of the price system of the market." Our various social institutions are not differentiated and structured according to pre-given values and commitments; these values and commitments are determined through conflict and contest—which is to say, politically. Smith's astute criticism of the PCSR and the MFA ought to lead us to recognize politics not as a series of policy achievements but as a process that produces such achievements, and which brings its own sorts of concerns.

Smith is, it should be noted, in good company in emphasizing outcomes over processes. Philosophers, at least since Rawls, have unwittingly subscribed to what Bernard Williams (2005, 2) referred to as "political moralism," where normative political thought is seen in terms of the application, or instantiation, of moral demands through political institutions. The so-called realist approach to political theory, advanced by Williams and others, demands that we think about politics *as politics*, not merely as institutionalized moral theory. This requires disabusing ourselves of the idea that political justice is merely a static instantiation of moral values, capable of being deduced by mere philosophical investigation. Once we think of politics in terms of ongoing disagreement and contest—not merely a series of legal, administrative, or institutional outcomes—a different view of business ethics emerges. In this view, the institutional configuration that informs business actors' moral obligations is not constituted simply by the state and the market, but by the political processes that determine how the state and the market interact, and to what ends. A political approach to business ethics, we argue, must not be political simply in looking at the normative foundations of politics; it must take seriously the political foundations of these normative commitments—what constellation of interests, distribution of resources, and interactions produces a given outcome. So understood, markets are political in a *dynamic* sense: their consequences are ever-changing, and their normative bases are always being contested, debated, and altered. Neither the effects of business activity, nor our judgments of it, can be sequestered or isolated from political activity.

Political business ethics ought to be informed by the normative principles embedded not just in the market (e.g., efficiency), nor the market-within-the-state (e.g., justice), but in the political process of navigating these various institutions. We argue that such an emphasis points us toward a specific normative concern for *democracy* for business actors, though in a way that is distinct from how other business ethicists have understood it. Democracy is not simply some transcendentally or categorically best moral decision-making procedure, an additional institutionalized value layered atop the commercial domain. Instead, democracy is the meta-commitment immanent to our political system. Smith and others are correct that business ethics must be informed by political and institutional commitments. But this does not simply mean obligations toward the values institutionalized in the marketplace through law and policy. Businesses have obligations to the political processes through which we assess the efficacy of economic institutions and shore up their legitimacy.

We begin (in section 1) by rehearsing Smith's argument and his criticism of PCSR. We then turn to Smith's criticism of the MFA (section 2), and use it to pose a further objection that Smith does not raise, which we refer to as the "problem of judgment." Taking this problem seriously, we argue (3), requires a concern for the deeply political processes that shape and determine the normative content of business ethics. We then explain (4 and 5) why such a concern for politics leads to a normative priority on democracy as a social and systemic imperative. Finally, we conclude (6) by sketching in broad strokes what a business ethics informed by a normative concern for democracy might entail. This is left suggestive: our aim is not to offer a full-fledged conception of business ethics, but to show how such a democratic approach to business ethics would differ from the theories currently on offer and the types of concerns and questions such an approach raises.

1. THE DIVISION OF MORAL LABOR

Smith describes the "political turn" in business ethics in terms of what is often referred to as the "division of moral labor." Made famous by Rawls (1971) and his claim that the subject of justice is the "basic structure of society," the idea of the division of moral labor is that justice is fundamentally a value that attaches to the configuration of social institutions, not first and foremost individuals. The moral labor is divided in the sense that these basic institutions are charged to procure background justice, which enables and legitimates the private decisions that individuals make in pursuit of their own understandings of the good life.

Seeing justice in such terms does not obviate the need for personal ethics, nor does it offload moral concerns fully from individual to society. Business ethics animated by a concern for the division of moral labor, according to Smith, looks to locate commercial activity and corporations in terms of the place they occupy within the basic social institutions of society, which then points to the moral duties that follow from such a position. Political business ethics is not about figuring out the moral demands of a businessperson qua rational agent, flourishing human being, or part of some divine order; it is about the moral demands of a businessperson qua businessperson, with business understood as a socially constituted office fitting somewhere within the basic structure of society.

Various political approaches to business ethics share this common emphasis, but differ, on Smith's account, according to how they understand the way the division of labor translates into ethical obligations within the commercial sphere. PCSR theorists (e.g., Scherer and Palazzo 2007), for instance, see corporations as sometimes occupying the governance role that formerly fell on state actors within the Westphalian system. Because corporations often act in geographical or jurisdictional domains where there is no functioning state governance, the moral responsibilities that previously fell onto the state now often fall onto the corporation in our post-Westphalian world. This cashes out normatively in the demand that corporations must be made legitimate through the same procedures that state institutions are legitimated by—namely, democratic deliberation.

As others have argued (Whelan 2012; Hussain and Moriarty 2016), and Smith aptly summarizes, PCSR theorists err in not fully recognizing the distinctive orientations that markets and states establish amongst their subjects. This can be illustrated by the way Scherer and Palazzo have used the democratic theory of Jurgen Habermas (see Sabadoz and Singer 2017, 193–98). While Habermas made the functional distinction between system and lifeworld a centerpiece of his social theory, PCSR theorists did not take this insight fully on board. They export Habermas's normative conclusions to the corporate sphere, but they do so at the expense of his nuanced social theory. The result is a confusion between the norm-orientation of politics and the consequence-orientation of markets, leaving it unclear, from a Habermasian perspective, "how the instrumental logic of the marketplace would be a suitable social site for the stakeholder discourse needed to uncover standards of socially responsible corporate conduct" (Smith 2019, 133). In locating some corporate actors occupying a state-like role in the division of moral labor, PCSR theorists fail to recognize how variegated the basic structure of society is and how differentiated the market is from the state. Consequently, they misconstrue the moral demands of the corporate executive as analogous to that of the statesman, downplaying the systemic imperatives that render such ethical demands inappropriate and morally perverse.

2. THE PROBLEM OF JUDGMENT

Smith, therefore, turns to the MFA, which aims to take seriously the distinctive qualities of commerce, thereby avoiding the conflation of firms and governments that PCSR scholars engage in. According to MFA theorists (Heath 2014; Norman 2011; Neron 2016; Martin 2013; McMahon 1981) markets are best understood as institutions that use private property, competitive pricing, adversarial norms, and exchange contracts to enable the greatest possible number of voluntary exchanges and transactions at the best rates possible. Or, put differently, Pareto efficiency is the implicit morality underlying the market (the MFA is sometimes referred to as the "Paretian Approach" to business ethics). Profit-seeking and commercial activity, generally, is rendered ethical because the structure of the marketplace makes it so that pursuing profit has a side effect of increasing efficiency more generally.

The MFA simultaneously takes seriously the distinctive character of markets while still producing nontrivial claims about businesses' ethical obligations. Because markets don't always work as well as they do in the textbooks, businesses will have the ability to profit off activity that is not Pareto-improving. Consequently, the MFA says that businesses have the moral responsibility to refrain from certain behaviors like externalizing costs, exploiting information asymmetries, imposing barriers to entry, competing through means other than quality and price, and so forth. Thus, the morality governing business activity is generated on the same grounds that business activity finds its justification: competitive profit-seeking is justified on Paretian grounds, but on the same token, profit-seeking must be constrained by Paretian considerations.

The MFA has the right approach but is too narrow in scope, focusing solely on efficiency as the value immanent to market activity. Because markets are "political choices," the norms inherent to the price system of a market will not just be efficiency, according to Smith, but a host of other social values we seek to pursue through the construction, regulation, and legal implementation of commerce. Whereas the MFA grounds business ethics in efficiency, Smith sees this as less open-and-shut. Whether efficiency is the sole value of market activity is, in a sense, an empirical question, since the values immanent to any particular actually-structured market will depend on the laws and policies chosen to structure it. The question then is what the politically-effected values are in any instance and how they translate into ethical obligations for business actors. These will include the MFA's Paretian concerns, but may also include concerns for fairness, nondomination, liberty, and so forth.

While Smith is correct to note the political nature of commerce, his focus on structured markets as political outcomes causes him to miss other important questions. A focus on political processes leads to different questions: *Who* decides what values we want markets to be structured in light of? *How* do we decide what sorts of behaviors ought to be constrained or re-oriented? While markets are, indeed, structured by value-laden political choices, these values are determined by various processes, which market actors will often be in a position to affect! To illustrate, let's momentarily take the MFA's claim that efficiency is the sole immanent value of markets as a given. Even then, there is a question of what norms and informal rules are best able to address market failures and when we ought to see markets as malfunctioning in the first place. Externalities, for example, are generally a sign that profits resulting from such processes are undermining the proper function of market competition and are taken by Heath and Arrow as paradigmatic forms of market failure requiring ethical correction. Yet, as Coase (1960) famously argued, the existence of externalities does not necessarily imply that the result is inefficient, since the acceptance of an externality by the harmed party may be preferable to some alternative. Put bluntly, to say that business actors ought generally to abide rules and ethically restrain themselves from profiting off market failures just raises the question of how we know a market failure exists in the first place. Furthermore, in a complex market environment where multiple market failures potentially exist, fixing one market failure might exacerbate others. Who decides when markets are in fact failing or when prices don't adequately reflect the social cost of a good, however understood?

Call this "the problem of judgment." What makes this problem so difficult is that the most readily available answer—the market actors themselves—raises at least as

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many worries as it does solutions. By virtue of the imperatives and internal logic of competitive markets, businesses will always have the incentive to judge such things in their own favor—whether such judgments are informed by economic analysis (as per the MFA) or by deliberation amongst stakeholders of a particular corporation (as per PCSR) —or use such ethical concepts to rationalize business-oriented concerns.[1] The problem of judgment only becomes more intractable if we follow Smith in recognizing that efficiency is not the sole value underlying markets. Market actors will have to judge not just when markets are malfunctioning according to efficiency, but when they are malfunctioning according to more controversial values like equality or freedom, when tradeoffs will need to be made, and what actions are implied by such judgments.

The problem with the MFA, then, isn't just that it tries to specify one value that markets are meant to embody or achieve. The problem is that it assumes that we have the epistemic resources available to us to articulate such a constant value in the abstract and know its implications. The MFA is able to claim that efficiency is the reconstructed normative function of markets because it views commerce as a domain isolated from political institutions, and because it assumes that the nature and function of these institutions is technocratically knowable. But how do we know, with any confidence, what sorts of institutions and institutional rules will tend to produce the right outcomes? What gives us reason to think that markets can ever be sequestered from other social values and commitments? In short, how can a political conception of business ethics address the problem of judgment?

3. POLITICAL PROCESSES, NOT OUTCOMES.

Smith's political turn—that is recognizing markets as structured by political choices—is the right way to begin challenging the MFA's ability to address such concerns. But pluralizing the "value" of the market to the "values" built into markets, as Smith recommends, doesn't effectively deal with this problem. By placing the emphasis on the outcomes of politics—the way polities shape markets and commercial activity through law, policy, administration, and regulation—Smith leaves aside the question of how we come to make these decisions. These decisions are often not driven by theoretically informed ideas about some social value that we want to structure society around. Instead, actors act out of a combined set of messy motivations—ideological, self-interested, partisan, and the like. To say that we ought to look at the types of normative values that political outcomes effect in commercial practices, either assumes a far too rationalistic understanding of politics or leaves out the story of the political dynamics that lead to such political outcomes. Addressing this problem requires not just uncovering the various normative underpinnings of

[1] One way around this is through the intersubjective nature of competition agreements, where market actors make up for the lack of governmental intervention by constraining themselves through "treaty," as discussed by Claassen and Gerbrandy (2018). This seems right, but of course, we then need some way of distinguishing between socially beneficial agreements and efficiency-reducing collusion. Even if competition agreements are useful tools, some external position still seems necessary for determining which agreements should be established and when.

political institutions, but recognizing what factors lead to specifying some set of normative underpinnings and corresponding judgments in the first place.

This is what we mean by moving away from the normative basis of political institutions and moving toward the political basis of our normative commitments. The normative values layered on the market are created through politics. If we think business's ethical consideration ought to be informed by the former, then we must be concerned with the nature and structure of the latter.

Here, we are influenced by Knight and Johnson (2011, 2), who capture the problem of institutional choice and politics nicely: "Given that there are alternative ways of institutionalizing social and economic affairs, relevant individuals and groups will endorse arrangements that they expect to operate over time in ways that favor their own interests, commitments, and attachments." Put differently, any institutional outcome or arrangement and the choice to abide or change those institutions—for instance, the decision to establish a market, to regulate it, or to establish a legal form, like the corporation, to act within it—should be viewed as a *political* outcome, entailing conflict and contestation. Because there are multiple equilibria and multiple optima, one specific institutional configuration of a market cannot be specified in advance, nor will such a determination be made by theoretical deduction. Instead, the specific institution will always be affected by, and intertwined with, the distribution of power and the mechanisms by which that power is able to manifest itself (Knight 1992).

If we follow the political turn in understanding business ethics as intertwined with the complex institutions used to structure cooperation, then business ethics must also be bound up in this political dynamic that shapes this institutional complexity. The *ex post* political choice to effect some value through some complex of markets, laws, corporations, and role ethics is thus never divorced from an *ex ante* distribution of power, diverse opinions and interests, and political capabilities (for classic discussions of this, see Esping-Anderson 1990; Skocpol 1995; O'Connor and Olson 1998). Taken seriously, then, business ethics should be seen as political in a deeper sense: business ethics is immanent to a specific politically-instantiated structure of commercial activity, which is, itself, determined by various relationships of power, disagreement, and the processes that such relationships are made stable. To offer a normative account of business ethics informed by an institutional instantiation of a division of moral labor, then, is also a political claim about how power ought to be wielded, and in whose favor we ought to settle disagreement.

Taken to a particular extreme, one might claim that normativity simply falls out of the picture once we assert that the political distribution and contestation of power will adjudicate such institutional choices. For instance, when claiming something is political, some realists (e.g., Geuss 2011) seem to imply a kind of norm-freeness or moral free-for-all; politics is the realm of power, and worrying too much about things like rightness or justice is simply to put oneself at a disadvantage in the conflicts that are the stuff of politics. This is emphatically not what we mean. While politics entails power and contest, it is not devoid of morality or normativity, nor should we want it to be. While politics, following Habermas, must entail the conflict of different interests and commitments, there are normative concerns at stake regarding *how*

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that conflict of interests plays out, what sort of means the parties can use to "duke it out," and who is able to participate. A program of business ethics informed by this political approach does not obviate normative reflection, but turns its attention toward these sorts of process-oriented normative concerns.

What does it mean to consider the normativity inherent to these political questions? Imagine an oligarchic government and regime that reflects and institutionalizes a certain kind of balance of power and interests. This will be complemented by an attending array of institutional mechanisms that stabilizes various sorts of social cooperation, but in a manner that tends to benefit these initially politically-favored parties. Followed even further, this will also affect the set of norms and ethical codes that participants in those institutions would be encouraged to abide. An immanent understanding of business ethics in such a regime would thus, inevitably, be oligarchic in some way. While Smith no doubt would want to criticize such states of affairs, his outcome-oriented understanding of politics offers us no resources to go further than this.

A process-oriented understanding of politics helps us do this, by looking at the values immanent to the sphere of politics itself. Taking this on, we would have at least two good reasons to criticize such oligarchic arrangements. First, we have no reason to be confident that such oligarchic institutions pursue socially acceptable or desirable ends; put differently, we have no reason to believe that they are *legitimate*. Second, even if we found ourselves living under benevolent oligarchs who would try to pursue legitimate ends, we have no reason to be confident that such oligarchic institutions are capable of achieving such ends; we have no reason to believe they are *competent.* Legitimacy and competency, we contend, are two values immanent to the project of a functioning political order, something all stable political regimes implicitly lay a claim to. An immanent approach to the morality of intrainstitutional behavior like Smith's, which takes politics seriously, requires that we concern ourselves with the legitimacy and competency of the political context that effects and stabilizes such institutional practices and our judgments therein. These two values, we argue below, point us toward having a normative preference and concern for *democratic* political contexts to ground our conception of business ethics.

4. DEMOCRACY AS A PREREQUISITE FOR INSTITUTIONAL LEGITIMACY

To say that legitimacy is an implicit demand of a political order is to beg the question of what legitimacy is. There is, obviously, an immense philosophical literature on what legitimacy demands of authority, which we have no intention to settle here. We take it that, at a minimum, legitimacy is a belief on the part of those being governed that those governing are justified in governing and are pursuing justifiable ends. This connects traditional descriptive understandings of legitimacy (x is legitimate if people believe x to be legitimate), with more demanding normative accounts (which locate legitimacy in the governing party's satisfying some set of criteria) without attempting to articulate a transcendental set of legitimation demands. An institution is legitimate insofar as it can be justified to, and thereby cultivates a sense of legitimacy amongst, those subject to its authority.

On this definition, democracy is not a necessary condition for legitimacy. The authority of parents over children, teachers over students, clergy over parishioners, and corporate executives over stakeholders might be justified by appeal to some value other than democratic authorizations. That said, at the metalevel of specifying institutional solutions to social problems, democratic institutions and procedures hold a special claim over other competing decision-making mechanisms. Rainer Forst explains this in terms of people's fundamental "right to justification": a person "must not be treated in any manner for which adequate reasons cannot be provided" (1999, 40). Note that this is not a claim that politics must be in "the people's interest," and thus, only those claims that are in line with the general will, or spoken in the voice of the people, are legitimate. One need not even accept that a "people" exists as such, nor that it have a unified interest or voice. Democracy's claim to legitimacy, here, is based on its ability to institutionalize and give effect to people's fundamental rights to have things justified to them and their fundamental responsibility to justify themselves to others.

The legitimacy of some mesolevel arrangement is informed by securing this macrolevel legitimacy, which democracy uniquely can achieve. Forst is worth quoting in full here (2017, 15, emphasis added):

> For a concomitant of the fundamental claim to justification and dignity is that societies develop spaces in which these claims are expressed, fought for and institutionalized… The "civic" order, therefore, is an overarching order insofar as—liberated from a narrower Rousseauean understanding of collective unanimity—*it encompasses the other orders and includes a higher-order political level of justification (whose elaboration is a permanent task). Then societies must be evaluated not least according to whether they open up such spaces of justification and ensure a fair distribution of discursive power among the subjects.*

Democracy, by requiring that institutions and social structures be held accountable by providing justification to those over whom they exert power, is the only legitimate form of decision-making for the highest-order political institutions. While a corporate executive's authority within the corporation may be legitimate without being democratically elected, shoring up the legitimacy of the commercial and corporate institution in the first place requires an overarching democratic polity that can render such institutions justified. Recognizing the political nature of business activity requires that business ethics not be quarantined from this "higher-order political level of justification." Instead, business ethics must concern itself with how business's institutionally configured orientation and interests might support or undermine the achievement of democratic legitimacy. Businesses using their outsized financial and social influence to undermine and skew political processes, or engaging in marketing strategies that wrongfully alter citizens' political outlooks, can be rendered unethical not only or primarily because it creates inefficiencies through rent-seeking, or undermines the state-established values of the market. Instead, such practices raise ethical concerns because they undermine the institutional channels that structure the social processes through which market institutions can be discursively and democratically redeemed as legitimate.

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5. DEMOCRACY AS A PREREQUISITE FOR INSTITUTIONAL COMPETENCY

The second point is that whether or not the overarching political procedures are legitimate, we still require them to be *competent* at institutional selection. Whereas a concern for legitimacy leads us to affirm or prefer political democracy categorically, a concern for "competence" leads us to a pragmatic reason to favor democracy. By this, we don't mean that a particular set of democratic processes, narrowly understood, produces the best policies or results in every context. This is clearly not true, as is implied by institutional plurality. In a democratic social system, we have many institutional types, including ones that do not internally rely on elections or other democratic processes, because democratic institutions are *not* always the best bet for achieving some particular end. Indeed, a democratic system requires allowing for the possibility that people may choose to structure certain parts of their cooperative schemes through institutions that are not themselves democratic: markets, bureaucracies, courts, independent agencies, churches, etc.

However, where democracy does hold comparative advantage over other institutions is in its ability to select, monitor, and coordinate the institutions we use to structure cooperation. As Knight and Johnson (2011, 19) put it, democracy enjoys a "second-order priority" in deciding what institutions and norms we should use because it is uniquely reflexive and inclusive—allowing its own decisions to be revisited, encouraging perspectival diversity through equal inclusion, and ensuring that losers in contests still have access to agenda-setting and communication platforms. The task of institutional monitoring—figuring out whether an institution is functioning well—requires that the meta-institution assess itself and its own functioning. Democratic institutions and procedures are the only ones reflexive enough for this task. While we may want nondemocratic institutions to coordinate certain aspects of cooperation—markets, firms, regulatory agencies, courts, etc. —we ultimately will want a democratic process to decide when we want to use which, since it will tend to be the most competent institutional procedure for experimenting and rendering such decisions.

Note that the institutional prerequisites for fostering this inclusivity and reflexivity have a strong affinity with the abovementioned "spaces of justification." Whether we're aiming to secure legitimacy or competency, the result is the same: we must seek to secure the social means for as large and diverse a group as possible to participate in the act of reflection, contestation, and experimentation. At this point, the normative concern for legitimacy and the pragmatic concern for competency and efficacy dovetail: "The conditions of causal efficacy are the same as the conditions of normative legitimacy" (Knight and Johnson 2011, 195). Still, it is worth distinguishing the legitimating function of democracy from its competency at institutional selection and monitoring. Even if we could establish a priori that society places a high priority on efficiency as a legitimate end, we would still require democratic institutions—external to the corporate realm (contra PCSR) —to enable experimentation with the best institutional means to achieve such ends, to monitor these institutions for efficacious functioning, and to coordinate them with our other institutions.

6. CONCLUSION: WHAT A COMMITMENT TO DEMOCRACY ISN'T (AND WHAT IT MIGHT BE)

By way of concluding, we here offer a broad outline of what a conception of business ethics focusing on democratic commitments looks like and how it differs from other approaches. Because of the nature of a commentary such as this, these can only be cursory comments. Furthermore, as we explain below, democracy is by nature a moving target and therefore resists simple discrete distillation.

To illustrate, it is helpful to distinguish the approach suggested here from what we might think of as external and internal approaches to business ethics. External approaches conceive of moral constraint as imposed from without. On this view, business ethics entails rational reflection on what morality demands and figuring out how businesspeople should or should not act in light of such moral concerns. Internal approaches conceive of business ethics in terms of managers' moral obligations toward some one or several constitutive groups of the corporation, specifically in terms of the former's fidelity to the latter's interests. On this view, business ethics entails specifying the correct group or groups to whom the manager ought to be accountable and figuring out how business actors can best act in light of such obligations.

The MFA is, in some sense, the political version of an externalist approach. Instead of taking a general moral theory (Kantianism, utilitarianism, Christian virtue ethics, etc.) as the source of external moral constraint, the MFA uses the division of moral labor and the institutional structure of commerce as the basis for thinking about moral constraint. It is political in the sense of drawing on political-institutional factors instead of moral first principles to ground its judgment, but is still externalist, arguing that the principle of efficiency, properly understood, translates into various forms of permissions and restrictions for businesspeople.

The most well-known internalist approaches are shareholder-wealth maximization (or profit-maximization) theory and stakeholder theory, which understand business ethics primarily in terms of the managers' fiduciary duty to some party. They disagree largely over which party is owed such duties and what such duties entail. PCSR is, in some sense, the political version of a stakeholder approach. PCSR argues that, due to the state-like position that corporations can often occupy, the fiduciary duty a corporation owes its stakeholders ought to be understood in terms of political legitimacy, leading to the claim that democratic deliberation is indispensable for corporate social responsibility. PCSR is political in the sense of positing the political *process* of deliberation as the means of moving from principal interest to agent responsibility, but it is still internalist, arguing that corporate moral responsibility is best understood in terms of what business actors owe to those whose interests they must track.

A business ethics informed by a commitment to democracy, as we understand it, is distinct in that it is externalist in nature but reliant upon a commitment to a democratic process as grounding for its moral judgments. It differs from the MFA in not thinking that the "purpose" of markets can be determined and established once and for all. Following Smith, we see such determinations as political and therefore reflective of ongoing political decisions. Understanding such political processes as implying a moral commitment to democracy means that the first obligation of business is not derived from the categorical principle of Kant or the immanent principle of market efficiency, but through the democratic process by which such values are sorted out and their meaning rendered clear.[2]

However, while PCSR shares our concern for democratic procedures, our approach differs in its eschewal of internalism. We therefore differ in our understandings of where corporations ought to fit within a democratic scheme. PCSR wants corporations to be the subject of democratic deliberation and in this way take part of the place of the now-receding Westphalian state. Given this, and given that there are moral reasons for states to be deliberatively democratic, PCSR finds Habermas's version of democratic theory to be particularly useful. But this misunderstands the kind of institution the corporation is and its limitations as a normative vehicle. We believe that Smith's criticism of PCSR is right on this point. The inherently strategic and instrumental nature of corporate activity makes them poor forums for democratic deliberation and inappropriate generators of democratic legitimacy. Corporations cannot generate their own legitimacy, but must be legitimated from without, as it were, by external institutions, processes, and norms. The question for us is not "how do we make corporations democratically legitimate as if they were states?" but "acknowledging that they are not like states, how can we establish the democratic legitimacy of the context and institutions in which they operate?"

Democracy, however, is ubiquitous and pervasive, and not something that merely delivers its dictates from on high. It is not enough merely to respect democratically established law to fulfill one's obligations toward democracy—indeed, in some boundary cases, obligation toward democracy could require civil disobedience. Businesspeople at the helm of modern businesses must develop an ethical disposition toward respecting, understanding, and cultivating the very democratic practices that underwrite the legitimacy of commercial activity.

So, what does this ethical disposition entail? What does it mean for businesses to have an ethical obligation to respect and have concern for democracy? Following Warren (2017), democracy is best understood as a style of problem-solving, as opposed to a discrete and fixed set of procedures, such as competitive elections or institutionalized opposition; it demands thinking in terms of adverbs— how do we solve problems *democratically*?—as opposed to nouns. We make policy or participate in various institutions democratically when the formation, revisions, and assessment of such practices is done in as inclusive a manner as possible, with all included being placed on as equal a plane as possible. Democracy, then, is a style of social engagement informed by a commitment to equal standing and empowered inclusion in the process of social oversight and coordination. Consequently, for businesses, a concern for democratic legitimacy and competency demands more than merely

[2] In this sense, our approach comes closest to Hsieh's (2009) claim that businesses have a duty to support social and political institutions. Where we differ, however, is in thinking that what this means—indeed, what it means to cash out an ethical duty in terms of what justice demands—is an open question and thus points toward a priority of supporting and cultivating democracy.

abiding by the outcomes of a democratic process, the spirit of those outcomes, or some preordained desiderata of democratic legitimacy. The processes that constitute democratic engagement will be changing and re-assessed in an ongoing manner, since interpreting what democracy entails must itself be done democratically. And even such provisional sets of processes generally won't be discrete and distinct from other activities, including economic ones. There are no Ten Commandments that businesses can simply follow in order to be ethical. To say "businesses ought to respect and care for democracy," then, requires businesses have an understanding of, and ethical disposition toward moderating, their effects on democracy.

Due to their economic power and their socio-cultural clout, businesses must recognize that they are always in the position to affect not just the outcomes of political processes, but even our understanding of what democracy demands of such processes. Doing business with a concern for democracy will, thus, surely mean respecting democratic law and not, say, tampering in elections. But it will also entail not gratuitously engaging in politics and being mindful of how even "strictly business" decisions—marketing campaigns, investment decisions, and hiring policies—might distort the democratic channels through which justificatory claims are raised and contested and the procedures through which we reflexively amend our institutional modes of cooperation. Taking democracy seriously as a normative concern for a business, then, means recognizing one's ability to disproportionately and undemocratically affect such processes, or otherwise act in ways that exclude, or render unequal, others in the political processes.

Smith has correctly invited us to recognize the various ways that commercial activity and its ethical implications are products of our political environment. We have suggested that such an invitation ought to lead us to recognize that businesses have a duty to be reflective of their place in the democratic social order that underwrites their own license to engage in commerce. Political business ethics must be attentive to the process by which legitimacy is cultivated (that is, how the demand for justification is answered) and institutional competency is established and sustained. These immanent political values, we argue, point us toward democracy, which means that business ethics requires businesses to exercise a concern for democracy. Absent democracy, we would have reason to doubt the legitimacy of the social values that underwrite our ethical codes. Absent democracy, we have reason to doubt whether our commercial institutions are functioning well according to such legitimated values. Indeed, we would lack confidence even in our criteria for answering such a question. Smith's claim that business ethics must be informed by the values "politically layered" on the market's price mechanism, points further back to the values inherent to the process by which we decide which values these are and how they are to be so layered. And this, ultimately, points us towards democracy as a metalevel concern.

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