

## The Human Development Capabilities Approach and its relevance to business enterprises.<sup>1</sup>

When Simon Kuznets formulated GNP to modernize the measure of national income, he unequivocally cautioned against confusing such measurement as a general indicator of society's welfare.<sup>1</sup> Yet, the current legacies of GNP and its derivative GDP bluntly contravene Kuznets' warning and have become the prevailing indicators of society's well-being performance. While these indicators popularly endure as practically convenient, more recent efforts now seek to correct this 'conveniently' 'mis'used and 'mis'measured shorthand for society's well-being.<sup>2</sup>

In revising what it means for society to progress and succeed, Sen's Capabilities Approach (CA) has been considerably conducive in shifting the lens from a *means-based* assessment dominated by monetary and productivity measures (GDP/Income per capita), towards a broader assessment based on the *actual opportunities* a person has that includes other non-monetary dimensions.<sup>3</sup> My research builds upon this intuition of extending beyond the means-based monetary and productive measures to examine how the CA could be analogously applied to the social arrangement of a corporation.<sup>4</sup> The primary aim is to shift the lens of what it means for a business enterprise to progress and succeed from a necessity-means-based assessment dominated singly by profit-focused measures, towards a broader sufficiency-ends-based assessment that includes multiple objectives intrinsic to the nature of the business aligned with the problems it solves and value it creates for society.

More concisely, this research confronts the **core problem** of how profit as a *necessary means* to secure a business is confused with the *sufficient end* of business. The **research purpose** explores how the CA can provide a conceptual framework for assessing a *sufficient set* that characterizes the valuable ends of business enterprises beyond a singular focus on the necessity of profit.

To accomplish this, three crucial conceptual issues warrant systematic consideration. **Issue 1:** The first issue concerns the singular fixation of a business

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<sup>1</sup> (Kuznets, 1934)

<sup>2</sup> (Durand, 2015; Nussbaum et al., 1993; Osmani, 2016; A. Sen, 1985, 1993, 1999; Stanton, 2007; Stiglitz et al., 2010; United Nations, 1990)

<sup>3</sup> Ibid. Cf. esp. (A. K. Sen, 2009, pp. 226, 233–234, 253–254)

<sup>4</sup> By 'business corporation' and 'firm', I specifically address large profit-oriented corporate businesses. Small-and-medium sized corporations are often characterized by the arbitrary boundaries overlapping corporate agency with the personality of its entrepreneur, which blurs the distinction between individual agency and capabilities from corporate group agency and capabilities. Furthermore, though the topic is highly pertinent to social enterprises, the present research tentatively reserves addressing these as well. This is because social enterprises, as well as NGOs and government agencies are characterized from the beginning by a predetermined social/environmental mandate, while the central purpose of this research is to develop pathways to shift from the mainstream of profit dominated focus towards a broader multi-objective evaluative framework of the performance and progress of a firm. Altogether, even though this research focuses on large profit-oriented corporations, the findings are not exclusive to this organizational form alone. With some adjustments, its conceptual findings can naturally be transferred to other organizational types, such as SMEs, social enterprises, NGOs and governmental agencies. In this broader direction, a research goal is to develop an organizational (meso)-level capabilities concept.

objective to profit; a paradigm here termed 'profit monism'. Two facets are explored: the single objective arguments grounded on shareholder primacy and value, and the counter-proposal for a multi-objective orientation of a firm commonly attributed to stakeholder theory.

**1.1:** In the first facet (**chapter 1**), the component arguments establishing profit monism are examined to discern what legitimizes the necessity of profit as the sole business objective over and above other necessary business objectives. It observes the boundaries of when corporate leaders within the rubric of profit monism can legitimately exercise social objectives, and critiques profit monism from the perspective of corporate governance.

The main proposition in this section (chapter 1) indicates that profit monism is not a legal fact but a managerial choice (one that is further acerbated by aligning shareholder interests with managerial incentives). For any business to properly function, joint inputs, team production, and incomplete contracts etc. have to *necessarily* be taken into consideration, which reveal that neither 'risks' nor 'ownership' of all factors of production belong solely to shareholders or any one stakeholder class.<sup>5</sup> How profit has come to be regarded as the sole objective of the firm is grounded *not* by the corporate rules of shareholder primacy asserting ownership or residual risk-bearing prerogatives (the legal rules in fact contradict this), but largely through managerial choice.

**1.2:** The second facet (**chapter 2**) examines stakeholder theory's proposition for a multi-objective orientation of the firm. Its key benefits are considered alongside the criticism of 'agency costs'; where the resultant broadening of managerial discretion in multi-objectivity is challenged by a lack of accountability, direction, and enterprise focus. Firm multi-objectivity is furthermore complicated by the static categorization of stakeholder groups, where each grouping's assumed homogeneity elides the dynamism and heterogeneity inherent within their objective demands.

This section (chapter 2) proposes that, even though firms should genuinely take multi-objectivity into consideration and implement them, the burden of securing and enabling stakeholder value should *not* be considered the sole domain and responsibility of corporations. On this point, agency costs theory is rightly applicable. Corporations have their own concentration of interests, priorities, competencies and perspectives. While these function crucially in bridging self-interested individual objectives with social-objectives, social-ecological-economic problems on the whole cannot be resolved by fulfilling corporate responsibilities towards stakeholder value alone.<sup>6</sup> Briefly put, though the participation of corporations in realizing stakeholder value is necessary, it is not sufficient to solve the present problems on externalities in society. These responsibilities are shared across all stakeholder groups and different functionaries in society that each actualizes varying priorities and interests areas.

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<sup>5</sup> Labor for example as one factor of production belongs exclusively to employees and cannot be owned by shareholders. Even 'capital' as a factor of production commonly attributed solely to shareholders, is shared by debtholders who, in spite of 'fixed claims', share residual risks (LoPucki, 2004).

<sup>6</sup> This is of course not to say that corporations should not take any responsibilities, rather that corporations have an important share of the responsibilities.

Altogether, this first issue surveys the limitations of both single-objective shareholder primacy and multi-objective stakeholder theory to illuminate areas where CA can innovatively contribute.

This is followed by **chapter 3**, which articulates the CA's fundamental shift in the focus of attention in assessing society's progress from the *means* of living, to the *actual opportunities* a person has, in effect broadening the informational base of valuation and changing the standard evaluative approach conventionally used in economics and social studies.<sup>7</sup> The chapter furnishes the essential concepts of the CA, surveys where it has been applied in the context of business-related areas, and examines CA's relationship with the institution of the market.

**Issue 2:** The second issue (**chapter 4**) pertains to the contested advancement towards group and collective capabilities. For CA to be relevant on the (meso)-level of corporate entities, it requires an operative concept of group capabilities. This has to account for a) group agency, b) multiple firm objectives, and c) the heterogeneity and dynamism of its constituent parts (stakeholder groups and/or individuals).

As a development framework, the CA has resolutely defended a people-centered analysis of well-being and advantage rooted on the unit of individual human-beings, even when it analyzes collective action, communities, or differentiated groupings (gender, age, ethnicity, refugees etc.).<sup>8</sup> Though CA scholarship acknowledges actual group capabilities, CA's reservations about it assert that group interests often subsume and disregard the individual's dynamic and heterogeneous values, leading to inequality and oppression.<sup>9</sup>

However, for unjust social arrangements and structures to change, and for a corporate entity to be accountable for moral wrongdoing, it must also be 'capable' of intentional acts of moral concern that is not simply reducible to the sum of individual capabilities and responsibilities (i.e. is unique to the group).<sup>10</sup>

As an exploratory proposition, a coalition model of firm constitution and group agency – one that transitions from the necessity-means-based *maximizing* principles to sufficiency-ends-based *satisficing* principles – is considered as a tenable alternative.<sup>11</sup> It supplements the static categorization of stakeholder theory and addresses the concerns of multi-objectivity, dynamism and heterogeneity.

**Issue 3:** The third issue (**chapter 5**) concerns what firm-level capabilities should center on. While to assess society's progress, the CA rightly centers analysis onto individual human beings and their opportunity aspect of individual well-being and advantage,

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<sup>7</sup> (A. K. Sen, 2009, pp. 236, 253, 278–282)

<sup>8</sup> This position is supported through the philosophical argument defending against methodological individualism for 'ethical individualism' viz. that in any ethical evaluation, only individuals are the units of moral concern and in evaluating different states of social affairs, only the direct and indirect effects of those states on individuals count (Robeyns, 2005, p. 107).

<sup>9</sup> (A. Sen, 2002, 2006; A. K. Sen, 2009)

<sup>10</sup> (French, 1984, 2015)

<sup>11</sup> (Cyert & March, 1992)

correspondingly analyzing these on the meso-level of a firm entity would be ontologically inappropriate.

Since organizational social arrangements are formed principally to achieve collective objectives (i.e. objectives that cannot be achieved individually), the structural-procedural aspect that accomplishes group objectives are more suited as firm-level capabilities. The meso-level of firm capabilities would require a reorientation from the prevailing emphasis on the opportunity aspect of individual well-being and advantage (rightly applicable to assessing society) towards the process aspect of group agency.

This reorientation however does not refute individual agency freedom and achievements, nor void the opportunity aspect of individual well-being. It instead acknowledges that individuals realize their agency from a formal right to an actual freedom achievement through collective structures and processes that they are socially embedded in. Individuals manifest real freedoms and become substantially free not by differentiating themselves and shirking away from group agency and group capabilities, but by converging their individual capabilities with group capabilities as co-authors in collective decisions.<sup>12</sup>

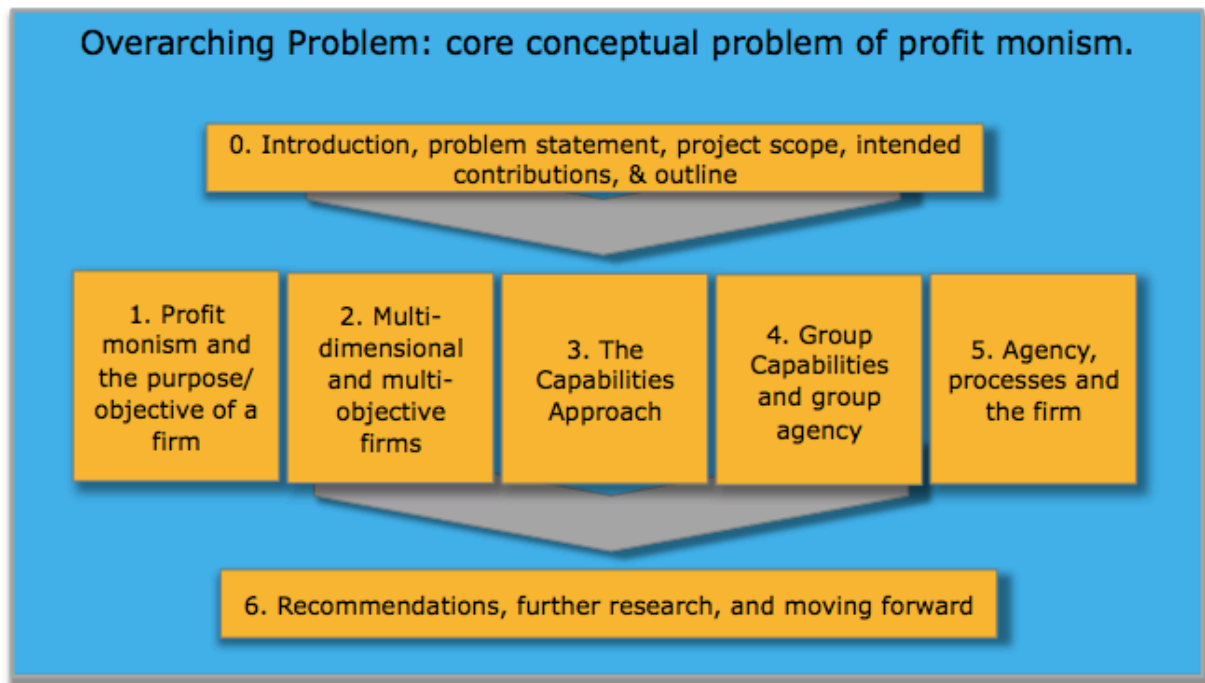
While the relevant capabilities for assessing progress in society center on the individual's opportunity advantage and well-being, the relevant capabilities for assessing progress in meso-level corporate groups center on the processes of group agency, namely in how a group jointly exercises effective power, collective decision in policymaking, and control to accomplish multiple collective objectives. These objectives constitute the set of sufficient ends in the nature of its business.

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These three issues occupy this research's main conceptual investigation in advancing beyond the business fixation on the sole necessity of profit towards a broader informational base of multiple objectives constituting the set of sufficient ends of a business. **Chapter 6** closes with an illustration of the key conceptual issues exemplified through a case example of a pharmaceutical company's 'price-gorging profit-focus' charges, defends the company's position in earnest by disclosing how they had actually strategically taken factors in addition to profit into consideration, and explicate how some of the discussed concepts can be applied. The chapter ends with recommendations, further research, and potential applications to move forward.

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<sup>12</sup> For related literature on collective capabilities and the process aspect of freedom, cf (Bonvin, 2012; Davis, 2015)



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