ABSTRACT. The issues of profit, its moral meaning, justification and role, need careful examination. Mistakes to be avoided in making moral sense of profit include the assumption that profitability establishes a company's moral rectitude. Profit is too complex a phenomenon to establish anything of the kind. Steps toward clarifying these issues include distinguishing profit as the goal of the corporation from the larger goals of the economy itself, and clarifying what we mean by profit. 'Profit' often includes the moral or value consideration of having been rightly or fairly earned. This provides one starting point internal to business for formulating standards for business ethics.

Profit is only rarely the central focus of business ethics discussions. In fact, when profit as such becomes the focus, we are no longer doing business ethics in the usual sense but are rather raising the question of the moral legitimacy of the business system itself. This is quite a different enterprise.

Nevertheless, it would be a mistake to conclude that profit does not play a significant role in business ethics. In fact, it appears to be one of the most important and persistent background elements in such discussions. After all, business ethics currently focuses almost exclusively on for-profit corporations, even though they share many characteristics and problems with not-for-profit enterprises. Apparently profit is widely thought to be a significant, even a morally significant distinguishing factor.

In fairness to business ethicists who are often accused of raising the profit issue, it should be noted that the focus on this subject is sometimes sharpened by business people themselves. Aided and abetted by academics such as Peter Drucker (1981), some business people are convinced that the major motivation of business ethicists is an anti-business animus, which presumably translates very easily into a morally based rejection of profits as such. Such persons often concentrate on exposing and discrediting such a bias, or on showing how most measures recommended by ethically concerned critics will threaten profits and thus endanger the corporation itself. At this point the conversation either focuses on profit or comes to an end.

Why profit always hovers and sometimes dominates

If we are to get beyond this problem with profits, we must ask why it frequently looms so large, perhaps even larger in popular response to business than in academic discussions. Surveys consistently show that the average citizen greatly overestimates corporate profit. This results in part from the consumer's assumption that any shortfall between the price of goods or services and the perceived value received is the result of corporate profit. Anytime an increasingly demanding and educated buying public feels short-changed in the marketplace, the conviction will grow that profits are soaring beyond all reason. Of course much such shortfall actually represents the costs of poor management, inefficient production and marketing, etc. But it is the consumer's
perception rather than the reality itself that determines the direction and tone of the discussion.

Profit sometimes becomes an easy target for the critic because of the way it is defined. If profit is what is left of gross receipts after all expenses have been paid, then the critic’s obvious question is, “What justifies profit, what is profit repayment for?” Wages and benefits for workers, payment for raw materials, taxes, advertising and other marketing costs, return on needed capital are all generally seen by consumers as costs legitimately passed on as part of the product’s price. But if all these have been taken care of, and only then is the remainder treated as profit, business is hard pressed to say what profit is payment for, how it is earned, why deserved. The usual move at this point is to define profit as what is left after all tangible, or all specifiable and quantifiable costs have been paid. Thus profit becomes payment or reward for certain intangibles crucial to production and marketing. Risk, entrepreneurial creativity and initiative, uncertainty, deferring use of one’s resources to make them available as capital, are some of the possibilities here. While this definition provides a bit more justification for profit, it is still quite an intangible one. Furthermore, the impossibility of measuring such intangible elements makes it difficult if not impossible to answer the almost inevitable next question, “How much profit is appropriate?”

Finally, profit is always a potential focus because the solutions to many business ethics problems threaten to eat into profits. Appropriate responses to problems such as pollution, adequate wages and benefits, safe, even pleasant working conditions, non-discriminatory personnel policies backed by appropriate recruitment, training and even retraining programs, careful husbanding of non-renewable resources, honest, informative advertising, production of safe, durable products — all of these frequently involve the expenditure of additional funds which can only come from what was previously treated as profits. Thus, for example, the pollution debate is not between business which favors pollution, and citizens who oppose it. It is between two sides which agree that pollution is undesirable but who will not always agree on what is a tolerable cost for reducing it. Thus while corporations do not pursue profit only (Adam, 1973; Lennox, 1984), that may seem to be the case when other morally indicated goals are resisted in order to protect profits.

Furthermore, business will often be at a significant disadvantage when profits are in this way set in tension with the needs or wants of other constituencies because the intangible elements which might justify profits do not, in the eyes of many persons, stand up well against the more immediate, basic and tangible needs of other claimants, such as more adequate wages and benefits for workers, clean air and water for all, or employee and consumer safety.

**Mistakes to be avoided**

**Premature defensiveness**

There are several pitfalls awaiting persons wishing to make good moral and human sense out of profits in response to the above questions. First, it should be noted that according to the above analysis, profit can end up on the defensive not just because of ill-will, anti-business animus or massive ignorance about economics and the capitalist system. On occasion these factors may contribute to profit’s problems. But many problems arise from the response of ordinary persons who predictably identify more easily with those basic interests and needs which often seem to be ranged against profit than they do with profit itself. Thus for business instinctively to charge forth to do battle with ill will and anti-business sentiments when profit is raised as an issue is usually premature, off-target and counter-productive.

**Excessive generalising**

Two other mistakes to be avoided are more conceptual in nature but are still important beyond academic circles. The first is the tack taken by H. B. Acton (1980) and others who argue that the pursuit of profits is simply one manifestation of the desire of everyone — whether investor, wage earner, supplier, or consumer — to possess more than one has. Such a generalizing of the meaning of profit and of profit seeking aims at answering critics of profit in two ways. The first depends on the belief that if a drive can be shown to be universal in humans and therefore apparently innate, it is beyond ethical examination and moral criticism. But this ignores the obvious fact that we are often held responsible...
for the way we permit even innate and universal traits or drives to shape our conduct. This approach also suggests that even if profit and profit seeking are morally objectionable, it ill behooves any of us to say so since none of our hands are clean in this matter.

But the price paid for any gains in this defense of profit is too high. Such expansion robs the idea of profit of all specificity, and any moral analysis of the central phenomenon in view — the conscious, systematic, and sustained pursuit of increased wealth through investment in capitalistic undertakings — is obstructed in two distinct ways. On the one hand, we find ourselves with traditionally accepted and intuitively persuasive moral distinctions which we can no longer make because this broadened definition reduces these phenomena to a single thing. Thus Rockefeller’s (or was it Carnegie’s) probably apocryphal response to the question of how much money is enough — “Just a little bit more” — becomes morally indistinguishable from the starving child’s plea for his third breadcrust in a week. Both are ‘profit’ seekers, desiring to increase their share of the available material resources. That equation is not only conceptually unhelpful, it is morally intolerable. On the other hand, this greatly enlarged definition of profit, by tempting us to reduce our defense of profit to the minimalist insistence that everyone does it, removes the motivation for seeking the positive moral points that can be made on behalf of profit in a capitalistic or mixed economy.

**Profit as moral justifier**

The second unhelpful move is for business too facilely to appeal to profits as a proof of its integrity and morality so that making a profit serves as a moral vindication — “How could we be doing so well if we weren’t doing good?” Such an appeal makes most sense on the assumption that the amount of profit is determined by the workings of some objective laws of nature or of economics which in proper proportion reward some contribution made or some characteristics possessed by the profit maker. Several brief cases show not only why such an appeal is not persuasive, but demonstrate that the very concept of profit itself is becoming problematic. For example, *Crain’s Chicago Business* reported that United Airlines “earned only $15.1 million in the first six months despite tax benefits of $148 million” (Merrion, 1983). The obvious question is why we call that a $15.1 million ‘earnings’ rather than a $132.9 million loss to, or at least subsidy by U.S. taxpayers. Similarly, on February 1, 1984, a *Wall Street Journal* editorial noted that “Federal handouts to agriculture exceeded net farm income in 1983” (Bovard, 1984). Again one might well ask what “net income” means here, or “Whose profit and how earned, and whose loss are we dealing with?”

On September 12, 1983, under a headline reading ‘Low-income project turns a profit’, *Crain’s Chicago Business* reported that on a low income housing rehabilitation project in which it had invested $940,000 in risk capital, and had provided other financing through letters of credit, Indiana Standard estimated its pre-tax profit at $600,000 to $800,000 (Wagner, 1983). The article reports that this project also involved the following elements: the Illinois Housing Development Authority provided a $13.8 million tax-exempt loan; Federal subsidies guaranteed that 70% of each unit’s rent would be paid for up to 30 years; the city of Chicago loaned the partnership $3.3 million at 1.5% interest; the congressionally chartered for-profit National Housing Partnership purchased 99% of the partnership owned by Rescorp and Indiana Standard and sold 95% to investors seeking tax shelters; residents of the development will pay only 30% of the rent. By the end of all this, the head of the uninitiated spins as he wonders what it cost the taxpayers to generate that ‘profit’ for Indiana Standard. No iron laws of economics here! In fact, one can be forgiven for suspecting that to call that money ‘profit’ is little more than a polite convention.

And finally, financial analysis of some recent corporate earnings statements show that earnings or profit can be as much an accountant’s creation or enhancement of reality as a corporation’s reward for performance. For example, according to one analysis, Polaroid’s claimed 21 cents a share earnings for the first quarter of 1984 drops to 2 cents a share when one eliminates gains over the previous year from certain non-operating and quite possibly non-repeating items (lower tax rate — 5 cents a share; currency gains — 7 cents; lower interest expenses — 5 cents; lower depreciation for plant and equipment — 2 cents) (Dorfman, 1984). To what extent then does this ‘profit’ increase over the year-ago earnings of 7 cents per share accurately inform us about corporate performance in its distinctive task of producing and
marketing goods and services, and the appropriate reward for such performance in the competitive market place?

Perhaps these are not typical cases. But at the very least they show that the terms 'profit', 'earnings', and 'net income' are used quite casually. At most, they show that these ideas have been severed from the simple definitions of profit most of us begin with, definitions which underlie most versions of the position that profit is morally justified and morally justifying. Here it becomes clear that profit, at least for major actors in our current economy, is the result of complex interactions among a variety of economic, political and other forces, most of which are beyond the control or even the direct influence of the business which nevertheless claims the resulting profit as its just reward. Thus, for example, it is virtually impossible in the end to say what the $600000—800000 represents except the amount Indiana Standard is permitted to claim at the end of an extremely complex series of interactions. Whether and why this is an appropriate profit (i.e., whether proportional to any other factor involved or to any actual contribution Standard made) is impossible to establish.

Nor is it only governmental decisions which alter supposedly simple and autonomous economic dynamics to determine profit. The action last year of U.S. auto makers granting their top managers millions of dollars in bonuses shows that certain elements within corporations can simply decree whether certain portions of company assets will be treated as profit or as resources available for meeting other 'expenses' such as executive bonuses. Thus to appeal to profits as a moral vindication of the company and its operations is in at least some cases to pull the rabbit out of the hat only after one — with the help of several allies, both witting and unwitting — has first carefully placed the rabbit there.

Helpful ways forward

Distinguishing corporate goals from the economy's goals

How then do we begin to bring greater clarity to the discussion of profit and its moral dimensions? I offer a few modest suggestions. First, it will be helpful to distinguish between the goals or purposes of a corporation and those of business as such, or to make the point clearer still, between those of a corporation and those of the economic system as such. Business leaders, sincerely and with the best of intentions, sometimes state that the primary purpose of a corporation is not to make a profit, but to meet human needs, to serve the consumer, etc. While this may be true of some corporations, and while on some level it may be true of all corporations, the public in general finds such statements unpersuasive, even hypocritical, and many stockholders may possibly see them as indicative of managerial mis- or malfeasance.

However, business persons making such statements are trying to say something which is both true and important. But it is said more clearly and persuasively if the distinction just suggested is observed. It may well help clear the air if corporations would simply acknowledge that their primary purpose is to make a profit and then stood ready to show why and how that is a defensible, a necessary, even a good thing in the present system. But at the same time they should acknowledge — and this would seem to be what executives trying to cast an altruistic light on corporations are trying to say — that the purpose of business, or of the economic system of which the corporation is a part, is not to make profit-making possible, but to fulfill human needs or to provide goods and services which sustain and enhance life (Camenisch, 1981). This identifies profit's proper place within the corporation while acknowledging its subordination to larger societal purposes beyond the corporation.

This distinction between the corporation's internal and external purposes, or perhaps better, between the purpose of the part (the corporation) and that of the whole (the total society and its economic system) may initially seem to raise conceptual as well as practical problems. But in fact we constantly live with this distinction. The purpose or motive of the person who weekly loads my trash onto the sanitation department truck most likely does not coincide with those of a corporation and those of the economic system as such. Business leaders, sincerely and with the best of intentions, sometimes state that the primary purpose of a corporation is not to make a profit, but to meet human needs, to serve the consumer, etc. While this may be true of some corporations, and while on some level it may be true of all corporations, the public in general finds such statements unpersuasive, even hypocritical, and many stockholders may possibly see them as indicative of managerial mis- or malfeasance.

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poses, such as making a living, supporting his family, etc.

We should have no more uneasiness in making parallel statements about the corporation’s goal of profit making in relation to the goals of the larger society. The corporation whose pursuit of profit is consistent with, or even is a means to helping society fulfill its economic tasks pursues two different but compatible and entirely honorable sets of goals. This way of seeing things avoids testing the public’s credulity by telling it that the primary goal of for-profit corporations is not profit. It would also put corporations and their goals in the appropriate perspective of their relation to the larger society and its needs. Thus profit-making as such might cease to be a moral issue and would raise problems only when it began to jeopardize the larger societal goals to which it is to be subordinated.

Clarifying the meaning of profit

The second and more substantive move would be to open the discussion not on whether profit is morally defensible or legitimate, but on what we mean by it. Conceptually it is not always easy to distinguish profit from apparently similar phenomena. How, for example, do ‘profits’ differ from lottery winnings, from $10000 I find on the street, from an inheritance, from income from juice loans, from taking money under false pretenses, from simple theft? After all, all of these frequently leave one with a ‘profit’. For the moment let us grant that their illegality eliminates theft, juice loans and taking money under false pretenses as serious comparisons. And yet the recent E. F. Hutton check rigging case cautions us against too facile a dismissal of these comparisons. Thinking now as morally concerned citizens and not simply as accountants, should the gains realised by Hutton in that practice have been considered profits? Were they profits until the scheme was uncovered, at which point they became “ill-gotten gains?” If, after paying the fine, court costs, and refunds to banks, Hutton still comes out ahead — which does not seem unlikely given the length, size and complexity of the practice — what should their ‘profit’ be called? Does simply considering it profit in any way taint those profits which were legitimately gained and with which it is now lumped as gross income? Just what are the limits to what can be considered profit.

To return to our list of comparisons, perhaps the element of sheer chance eliminates the $10000 found on the street from being considered profit. But what about the lottery winnings or the inheritance? No law was broken. I did make some investment and do certain things to attain the goal (I knew aging and wealthy Aunt Gertrude was lonely and enjoyed Sunday drives in the country.) And I profited. Ah, but gains are properly called ‘profits’ only if they result from ‘business activity’. So why then is buying a lottery ticket not ‘business’, while investing in a highly speculative stock is?

This question of what constitutes ‘business activity’ is an important one, but more interesting here is another element which is almost invariably introduced to distinguish profit, properly speaking, from some of these other gains, especially the more questionable ones. This is the idea that profit must be earned, must even be fairly and justly earned, that it must be a ‘reasonable’ profit. If we had difficulty defining ‘profit’ and ‘business activity’, we can surely expect no fewer problems with such notoriously elusive terms as ‘fairly’, ‘justly’, and ‘reasonable’.

Profit and Moral Justification

This idea of profit as earned, justified and proportionate is almost certainly behind the invoking of profitability as a moral legitimation of the corporation and its activity that was dismissed above as misleading given the diverse factors now influencing business outcomes. However, it is now time to acknowledge that this group of interconnected ideas does have some role in our understanding of profit and its place in the assessment — moral as well as economic — of corporate performance.

Challenged to explain, even to justify their profit, corporate leaders seem to have four kinds of responses available. The first, which most critical consumers may suspect is descriptively the most accurate one is that the amount of profit is determined by whatever the market will bear. Few business people publicly state this answer since it sounds so much like, “grab all you can and run.” But where Adam Smith’s “invisible hand” is still thought to function, this answer will be seen not as a license to
exploit, but as a realistic recognition of ordinary, even automatic market limitations on over-charging. Nevertheless, because Smith’s analysis is unknown to many, and is rejected by many others, and because our economic experience is so different from that represented by Smith’s simple model of the market, this answer is usually, and probably wisely avoided by business persons as appearing to legitimate virtually unlimited profit-taking without claiming any moral justification for it.

A second answer to the challenge to explain and justify profits, already met above, but mentioned here for the sake of completeness, can be a species of the first. But rather than seeming to remove the limits to profit making, it explicitly invokes such limits in the form of some automatic and impersonal laws of economics which will set limits to what can be charged through the interplay of various market forces. In addition to what was said above about the current inadequacies of this approach, we will here simply note the widely recognized ways such controlling market mechanisms are impeded, obstructed, even defeated by monoploy, oligopoly, various forms of governmental interventions, including subsidy of business, and the difficulty of new producers entering extremely complex and highly technical markets.

A third answer to the questions of justifying profits and their amount is for business to appeal to the public to trust business’s own conscience to keep it within appropriate limits specified in part by business’s various contributions which ought to be rewarded, and by what business needs to survive. While some persons may find this answer acceptable and while some corporations do deserve to be so trusted, carefully examined this answer finally fails because of its paternalism. Paternalism, which in the present context means the need for some to rely on the voluntary good will and intentions of others, is increasingly out of fashion in this society for a number of good reasons. Thus, at a time when the law, traditional professions, and other agencies in the society are being criticised for their paternalism, it is unlikely that business will be permitted to answer the question of the appropriate limits on profits by appeal to its own internal controls to be exercised on behalf of, but without examination or control by the public.

The fourth answer to our question tries to justify profits in the most direct and usual sense of that term. Here the business person claims that profit and its amount are justified by some contribution of business and/or its owners, for which the profit is an appropriate repayment or reward. For this response to be persuasive, two conditions will have to be met. First and most obviously, that ‘contribution’ will have to be specifically identified. Otherwise we are back to a paternalism in which we simply take the corporation’s own word concerning its virtue, its trustworthiness, or its profit-deserving contribution. The second condition to be met is that the contribution so specified not be so abstract and intangible that it is able to justify virtually any amount of profit, and so leaves unanswered the question of proportionate or appropriate profit.

The frequency with which business persons resort to this last response raises the question of whether “being justified” is helpfully treated as a part of the definition of profit, or whether this element is extraneous to profit so that business gains are properly considered ‘profit’ even when they cannot be justified in any of the usual ways. This is in part a linguistic or definitional question of how we use the term ‘profits’. (Even at this level, however, we ought not to forget that language reflects and perpetuates our moral conceptions and commitments, and thus should be chosen carefully.)

But this is also more than a linguistic issue, for if, according to wide usage, profit is only truly profitable when it is deserved according to some publicly specifiable and generally accepted criteria, then one can begin to argue that at least some of the moral standards applying to business need not be imported from outside business by “business ethicists”, but that they are inherent in the very basic concepts, such as ‘profit’ by which we understand and structure our economic system. I can think of no development which would portend better for progress in business ethics than such a discovery within business of some of its governing moral norms. Carefully attended to, the idea of profit as it is frequently used offers an excellent starting point for identifying just such internal moral norms for business. On the other hand, insulated from any such moral considerations and limitations, profit will indeed be difficult for business to defend and, whether explicitly articulated or not, will continue to be a potential obstacle to productive dialogue in business ethics.
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