

# Corporate Purpose: Fact or Fiction? Myth or Reality?

—The Honourable Merchant as the Historic Basis of Corporate Purpose

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## **[Abstract]**

Since the financial market crisis of 2008, the call for responsible corporate management has become both louder and broader. The politicians, activists and ordinary citizens in many countries fear that existing corporate control mechanisms might not be enough to put a stop to financial gamblers in what they perceive as a societal ethics-void. To this extent, the financial crisis revealed both societal and corporate deficiencies in the basic understanding of responsible, sustainable, honourable and thus successful, corporate leadership.

The paper shows that Corporate Purpose and the principles of Honourable Merchants coincide and come into play. The guiding principles assume that responsible behaviour enacted by those in leadership position is the basis for sustainable economic success and social peace in society. While much of this had been lost as social responsibility became more codified in law rather than driven by practice and collective value, today we may be seeing a move back from legal doctrine to moral suasion and collective value based action.

Although the corporation as a form dates from the 17<sup>th</sup> Century, what we would call the “modern corporation” originated with the development of formal corporate law, and the establishment of limited liability, in the middle

of the 19<sup>th</sup> Century. However, up until the early 20<sup>th</sup> century there was little discussion as to whom a corporation was ultimately responsible. While historically corporations would be chartered by the state (or the ruler) and hence

their “license to operate” (LTO) would be subject to the rights of the state (or the whims of the ruler), this regulatory oversight has devolved to a wide variety of jurisdictions over time.

In *The Theory of Moral Sentiments*, Adam Smith laid out a socio political philosophy as to the nature of people’s personal, political and economic interactions. In something a counter balance to *The Wealth of Nations*, Smith argues that there is more to personal and commercial interaction than just self-interest: “*How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it*” (The Theory of Moral Sentiments, I, § I, Ch. I, p.9). Smith talks about two guides to decision making, rules and virtues. Rules serve as the core of regulation of actions and articulate what is and is not permitted in a society. Virtue, however, goes beyond simply following the rules and reflects not just ‘intentions’ but the ‘consequences’ of decisions and actions on others. From a corporate perspective, what mostly mattered to the operation of the corporation were “rules” as opposed to “virtues”.

It was really not until the famous Berle-Dodd debates of the 1930s (see, e.g., A. Sommer, Jr. [1991], Whom Should the Corporation Serve – The Berle-Dodd Debate Revisited Sixty Years Later, *Delaware Corp Law Journal*) that the idea that someone other than the owners of the firm (i.e., the shareholders or private owners) had legal and regulatory rights moved into main-

stream policy and legal discussions. If we fast forward this debate into the latter part of the 20<sup>th</sup> Century, Freeman (*Strategic Management: A Stakeholder Approach*) argued that there are more claimants on corporate rights and that the best corporations are those that recognize and manage the complexities of those diverse and competing claimants, whom he call “stakeholders”. Today, the debate has progressed further, where regulators, investors, stakeholders and managers all recognize there is an implicit (and sometimes increasingly explicit) “Social License to Operate” (SLTO) that goes far beyond the traditional and narrowly legal LTO that has been the commercial norm. In Smith’s parlance, we have moved from an era where “rules” alone mattered to one in which corporations are now required to live by the rules and to act virtuously.

This leads us to the rather recent notion of **corporate purpose**. The key to corporate purpose is to recognize that the core function of the corporation is not to make money, nor is that the ultimate goal. The making of money is the result of a whole series of technologies, processes, decisions, and so on that lead to the most appropriate and desirable outcome to a collective of stakeholders who both co-create value and willingly share the value created in what is recognized as a fair distribution.

The logic of corporate purpose is sometimes difficult to see with respect to large public corporations who ultimately get captured by standardize internal processes, investor benchmarks and an increasing distance from their point of founding. However, the idea of purpose is more visible with smaller

enterprises or firms where a family or single individual is the driving force. When questioned these individuals rarely say they went into business to make money. Invariably, there was another passion that drove them to do what they did. Sometimes the initial purpose was an expediency. As Steve Jobs noted about the beginnings of Apple: *“Basically Steve Wozniak and I invented the Apple because we wanted a personal computer. Not only couldn’t we afford the computers that were on the market, those computers were impractical for us to use.”* Similarly, Ben & Jerry’s founded an ice cream company because making bagels was too expensive and Ben (Cohen) had a condition that made it hard for him to smell (hence their trademark ‘chunks’ in the ice cream). For these organizations, the purpose is their *raison d’être*. It becomes internalized in terms of processes and goals and, if successful, is the motivator for employees down the line. As we will note shortly, purpose can also reflect an internalization of a potential public good in a more generalized sense, should all organizations choose to align with a “code of conduct” that embodies shared values.

## 1. Corporate Purpose as Strategy & Governance in the Modern Corporation

But how does the notion of corporate purpose apply to the large public corporation. In this instance, we can look at two aspects – strategy and governance.

Richard Rumelt distinguishes between “bad strategy” – a strategy that “accommodate[s] a multitude of conflicting demands and inter-

ests” – and “good strategy” that focuses “energy and resources on one, or a very few, pivotal objectives whose accomplishment will lead to a cascade of favorable outcomes”. Having a clear and distinctive purpose, as opposed to a plethora of goals and key performance indicators (KPIs) unique to divisions and subsidiaries, can be the essence of a good strategy. It makes clear the line of sight between the purpose and actions/decisions as the key question is simply “how does this action/decision enable us to fulfill our purpose?” It also aligns any subsidiary KPIs to a singular point of reference. For employees it means that they do not need to be driven by rules but by virtue. As Herb Kelleher, the late CEO of Southwest Airlines put it, *“If you create an environment where the people truly participate, you don’t need control. They know what needs to be done and they do it.”* The key, of course, is to have a meaningful and actionable purpose that resonates distinctly and operationally with the key stakeholders.

The key to successful governance is also driven by purpose. The legal requirements of board members fall clearly into the category of rules. Some boards work well, and others do not. But whether they work well or not has almost nothing to do with whether or not they know the rules and choose to follow them or not. We are all schooled in the rules that define “hard governance”. What matters is “soft governance” – the unwritten rules, routines and interactions that embody the underlying culture of the organization. It is what people do about the rules and what they do when there are no rules, or the rules are un-

clear or provide no guidance. In other words, it is the virtues aspect of governance. The key to governance is the fact that virtues flow downward – the board and top management team embody them and their choices and decisions and modes of speaking, interacting and managing signal what is virtuous and purposeful. If they do not live the purpose of the organization, purpose becomes shallow and meaningless.

So why is purpose important? Today organizations are facing three existential threats. The first is related to climate and its impact on businesses and societies. The second is public health, most noticeably seen in the case of Covid-19 but seen in other major outbreaks and systemic health issues related to lifestyle and longevity. The third is the failure of political governance and the rise of populist leaders in both democratic and autocratic political systems. Together they force companies into decision making modes for which clear options are not there. If you are HSBC, how do you deal with the Hong Kong Security Law? If you are Google or Facebook, how do you deal with calls for data protection, transparency and hate speech? Or demands for back door access by security agencies? If you are any multinational enterprise how do you address demands for local taxation or the outsourcing of operations? If you are a pharmaceutical company working on a Covid-19 vaccine, how do you address issues of access, pricing and efficacy of the treatment? For any company, what is your commitment to climate action over and above aspects that might be considered “greenwash”?

The list of questions for which the answers are not clear is nearly endless. But what is clear is that there are no simple business model answers to them. It is also clear that the answers to questions like these are not only strategic but critical to the head-to-toe aspects of any business. So you have a series of questions for which there is no guidance and as a board or senior executive you have to signal to the rest of your organization that the decisions you are making are more than just compromises that satisfy no one and reflect nothing truly. It is here where purpose matters. If there is a clear purpose to the organization, reflected in the virtues that underly all that motivates the individuals in that organization, the answers become clearer. They may not be crystal clear, but purpose helps highlight what actions can be ruled out. Google reflected this when it chose not to compromise with the Chinese government's demands for censorship and handed over that market to competitors.

But it is important to recognize that purpose may be reflected in values but that it is more. Companies compromise on supposed values all the time and most companies list of values amount to little more than generic motherhood statements. They make commitments to employees but engage in outsourcing and retrenchment. They make commitments to customers but raise prices when it is convenient. They make commitments to suppliers but change them all the time. They make commitments to the environment or social causes but rarely beyond a limited impact on their business model.

Hence, purpose matters when it is simple. Purpose matters when it is embodied by the board and top management team. Purpose matters when it directs operational and financial KPIs. Purpose matters when every decision can be justified as an alignment to the purpose. Purpose matters when it is lived by each and every employee and understood and respected by all the organization's stakeholders.

## 2. Honourable Merchants: Corporate Purpose in Germany's Midsize Hidden Champions

Germany's small and mid-size companies, known as the *Mittelstand*, have been recognized as particularly unique champions of global competition. Yet, despite their success they have remained mainly hidden in their market niches. Hermann Simon has studied these hidden champions extensively and characterized them as embracing five common practices (Simon, 1992):

- (1) Combine strategic focus with geographic diversity.
- (2) Emphasize factors like customer value.
- (3) Blend technology and closeness to customers.
- (4) Rely on their own technical competence.
- (5) Create mutual interdependence between the company and its employees.

If you delve into the history of the corporate purpose of these hidden champions you come across the Principles of Honourable Merchants (PHM), which is embedded in the German eco-

nomic system known as the "Soziale Marktwirtschaft". As we, will discuss here, this structure reflects more than corporate purpose alone but reflects an industrial internalization of common purpose that self regulates via historic precedent.

The PHM have, as will be shown, a thousand-year tradition that has reflected a remarkable resiliency. A variety of economic crises – such as the bursting of the dotcom bubble 2000/01, the financial market crisis in 2007/8 and numerous subsequent business scandals (for instance: Enron 2001 in the U.S. and most recently Wirecard in Germany) – have reinforced and revitalized the PHM. The 'Assembly of an Honourable Merchant to Hamburg' celebrated in 2017 its 500<sup>th</sup> anniversary as the largest and oldest association of ethical businessmen in Germany.

In fact, as late as 2017, the PHM incorporated into the German Corporate Governance Code (DCGK) which "highlights the obligation of Management and Supervisory Boards to ensure the continued existence of the company and its sustainable value creation in line with the principles of the social market economy.... These principles not only require compliance with law, but also ethically sound and responsible behaviour" (DCGK, 2017).

In economics, the PHM are embedded in the wider research area of Corporate Social Responsibility (CSR) (Devinney et al. 2013) which focuses on the relationship between current economic and social policy as well as business and it promotes measures to oblige companies to develop their own responses towards such policy as well as to regularly communicate

(positive as well as negative) impacts of their business activity on the economy, the environment and society.

Members of the *Mittelstand* explicitly refer their corporate purpose to the PHM. For instance, the German family company Trumpf GmbH + Co. KG, largest producer of Machine Tools and global leader for Laser Technology, explicitly follow the PHM, by stating:

*I am convinced that the question of the future of the honourable merchant is decided by his personal actions. Through his actions, he must demonstrate the maxims according to which he leads his life. His example is decisive. Reliability is decisive. ...Credibility is the highest asset to be acquired. .... We need ... the honourable businessman because human coexistence, if it is to function, is based on mutual trust, even across national and cultural borders (Berthold Leibinger, 2006).*

### 3. The History of Honourable Merchants

For the understanding of the principles of Honourable Merchants and for the assessment of the transferability to modern entrepreneurship, the historical genesis and evolution of the *Principles* are of central importance. The following section explores the millennium of the *Principles of Honourable Merchants* and transforms these into a contemporary model of corporate responsibility towards society.

The concept of honour is the focus of the leitmotif *Honourable Merchant*. The term “Merchant” is used as a substitute for the individu-

als that self-employed, entrepreneur, and/or manager.

The concept of honour is not an absolute concept. It is strongly subject to historical change. Honour is often defined in two dimensions: **external honour** – as the evaluation of the individual shaped by the environment and social context – and the **inner honour** – as the sense of honour perceived by the individual himself. The duality of the term is part of the stability of the concept. In fact, this concept can be traced back usefully to ancient times with Aristotle suggesting in *Nicomachean Ethics*: “Honour is the triumph of virtue and is given only to the good” (Aristotle 2005: 85). Considering honour as a reward of virtue, proposes external honour to be dependent on the inner. Virtue is understood by Aristotle as a behaviour “between two wickedness; excess and deficiency” (ibid.: 42). Honour is not a single virtue of many; it is the result of the applied virtues of the individual and it becomes an expression of its value, which in turn resonates with the values of the epoch. Hence an honourable person is tied to virtues: If the practiced values of the individual are recognised externally by the community, it can be said to represent external honour. If an individual recognises and enacts his or her own values from inside, the person has an inner sense of self-worth, which is described as inner honour. This understanding of honour is the most useful as a basis for the consideration of the Honourable Merchants, as merchants always directly relate to the community whose members measure them in their conduct. Honour changes and represents itself

in a dialectic process between the individual and the community.

#### 4. The Honourable Merchant in Antiquity

“Whoever is fair and true in the market, Zeus will give him wealth,” says Hesiod of Askra in the Greek Boeotia around 700 BC. (Baloglou and Peukert 1996: 23). This is one of the oldest testimonies for Honourable Merchants in European history and illustrates that the behaviour of economic actors in markets has always been the subject of normative expressions. Particularly noteworthy is the combination of the desirable behavioural standard (fair, true) with the success (wealth).

Comparable statements exist throughout European history and are an expression of a deep-rooted culture of entitlement to entrepreneurial decency, which does not mean that European merchants have always lived up to this claim. Many negative examples speak a different language to this day, and doubts about reaching this ideal have also existed since ancient times.

Demosthenes, a Greek speaker and son of a manufacturer (Fellmeth 2008: 43), who, in 384–322 BC, found it difficult to find a man who did business and, at the same time, was industrious and Honourable (cf. Baloglou and Constantinides 1993: 61). He also observed that “in the business world and on the money market, it is admirable when the same man proves to be honest and diligent at the same time” (according to Fellmeth 2008: 42). Of course, this also means that there were always merchants who aspired to the ideal of honest merchants.

One of the first to make a name for himself in this context was the banker Pasion (from 400–370 BC) from Athens, who was “apparently very efficient and honest” (ibid.: 40) and was highly regarded in Athens. Economising with the goal of winning, as is typical for merchants, had already become sociable at Hesiod’s time. But, as Demokrit (Greek philosopher, 460–370 BC) makes clear, “the acquisition of money is not useless, but unjustly it is worse than anything” (according to Baloglou and Constantinides 1993: 26).

It was well known to the Greeks that Honourable Merchants unite economy and ethics. A statement from the work “Oikonomika”, presumed to be written by a disciple of Aristotle in the 3rd century BC, confirms, however, the systematic linking of business skills and virtue, which is the basis of the success:

*Those who want to do business in a dignified manner (oikonomein) must be aware of the places where they operate, and must be naturally endowed, as well as to spare no effort and justice on their own initiative. If something is missing from these qualities, he will make many mistakes in the projects he takes* (according to Fellmeth 2008: 8).

In fact, the concepts of Honourable Merchants were characterised from very early on by the acceptance of profit-making and economic performance criteria, but these had to be in harmony with its societal context of virtuous behaviour, so that the merchants could call themselves Honourable. Rome’s decline and the time of the migration of the peoples led to

a long period of European reorganisation and transition across very different societies, national and productive strictures where the principles of Honourable Merchants survived with few changes although Hesiod's godfather Zeus was replaced by the Christian faith in the European Middle Ages.

## 5. The Honourable Merchant in the Middle Ages

The earliest source of Honourable Merchants in the Middle Ages can be traced back to the famous Italian handbook *Pratica della Mercatura*, published around 1340. There, Francesco Balducci Pegolotti reproduces in his introduction the verses of Dino Compagni (see Le Goff 1993: 85):

*The merchant, who wants to enjoy respect, must always to act fairly, have great foresightedness and always keep his promises. If possible, he should look amiable, as the Honourable profession which he has chosen corresponds sincerely to the sale, be attentive to the purchase, he should thank him and keep distance from complaints. His prestige will be even greater when he visits the Church, for love of God, without haggling;*

Luca Pacioli (1445-1517), who is the inventor of double bookkeeping, writes in 1494, in the first chapter of his book *Summa De Arithmetica, Geometrica, Proportioni Et Proportionità*, that the three conditions of true merchants are: (1) the money, (2) a good calculator, and, (3) a proper accounting of the debt and the

receivables (see Pacioli 1494). The merchants' manuals and Pacioli itself can be seen today as a precursor of management science and management textbooks. For example, double-entry bookkeeping still belongs to the basic knowledge of every student of economics, management and accounting, yet it is a system of calculation and record-keeping designed by merchants for their own control and for the assurance of the honest merchant's practice.

The virtuous behaviour complements the professional abilities of the merchants. The clerks of the merchant manuals were aware that ethical behavior and the good name of merchants were assets that had to be protected as well (Pacioli 1494: 84). The first truly detailed handbook is the *Zibaldone da Canal*, of Venetian origin, dated around 1320 (ibid.: 77). The *Zibaldone* expresses the consequences of smuggling as follows: "... you lose faith and honour by it, so that they will never trust you as before your crime was found out" (Zibaldone da Canal ca. 1320, after Dotson 2002: 84). By criminal machinations, merchants lost the trust and honour they placed in them and the long-term loss of reputation was a loss of such severity that criminal machinations were, literally, not worth it.

The Middle Ages already recognised the economic significance of the activity of the merchants. In fact, they had a great influence on the development of cities. Benedetto of Ragusa wrote in his handbook *Trade and the Ideal Merchant* in the 15<sup>th</sup> century: "The progress, the common good, and the prosperity of the States depend to a large extent on the merchants; [...]. The work of the merchants is ar-

ranged for the benefit of humanity” (see Benedetto, 15<sup>th</sup> century, according to Le Goff 1993: 80–81). In turn, merchants knew it was in their interest when they maintained social peace through charity (Le Goff 1993: 106). The city was the basis of its success, its business and its power and took the highest place in their reflections and considerations (cf. *ibid.*: 120). The merchants, as patrons, supported the literature and art within their city and regarded culture as indication of the city’s success and their sponsorship as indication of their status in the success of the city.

While the surviving literature mainly refers to Italian merchants, there is a generalizability as to the bundle of virtues and good behaviours of merchants within the Christian community.

## 6. The Honourable Merchant in the Early Modern Period

In the early modern period, religion largely disappeared as a source of understanding, interpretation and of guidance for individuals within communities (Le Goff 1993: 96). Throughout the Enlightenment, the bourgeois honesty of the citizens and of the merchants became blurred (see Burkhart 2006: 93). The kind of honourability remained relatively stable in this respect and passed to the bourgeoisie and the bourgeois merchants (see Sombart, 1920). Sombart has described the bourgeois Honourable Merchants in detail (see Chapter 137, 160–163, chapter 12, with a focus on the relationship to the community). He identifies the bourgeois economic rules, such as the principle of keeping the revenue larger than the ex-

penditures (*ibid.*: 137–139). In addition, economic arguments about ethical behaviour increasingly defined the relationship between merchants and the outside world (*ibid.*, 160) where the litmus test for economic activities and their ethical justification became “commercial soundness”; i.e. the reliability in keeping promises, ‘real’ service and the accuracy in meeting obligations. For Sombart, this is the ‘morality of the treaty,’ since the relations among merchants were not necessarily personal, but were rules-based and related to the business as an organisation. The morality of the treaty as a virtue contains the principles of simplicity, truthfulness, loyalty, and honesty (*ibid.*, 161). In Europe, these principles had to internalise every person who wanted to become a merchant until the eighteenth century (cf. *ibid.*: 162).

In England, the *The Complete English Tradesman* was a widely used guide since the early 18<sup>th</sup> Century (Defoe 1839), with the French equivalent, the *Le Parfait Négociant* (1675) by Jacques Savary predating it and serving as a basis. In the balance between business and the well-being of the community, it was very important for bourgeois merchants to recognise that seeing only their own advantage was ethically wrong (see Sombart 1920: 207). “To supply good and genuine goods” (*ibid.*) was self-evident. The image of early-time Honourable Merchants reveals the consistent continuation of the ideals of the ancient and middle-aged Honourable Merchants just before the dawn of modernity.

As the early modern age evolved into the industrial era, there were many efforts by en-

trepreneurs (they often called themselves merchants) to preserve or even develop the image of the Honourable Merchants. One of them was Oswald Bauer. His *The Honourable Merchant and His Reputation*, based on personal experience (Bauer, 1906), marks a milestone, as it deals in depth with everyday commercial life of its time and explicitly illuminates how commercial activity should be carried out honestly and honourably. Analysing and structuring the text, the core structure of the Honourable Merchant, who had to have general, specialised knowledge, and advanced training, would be able to demonstrate the necessary skills that are essential for economic success. This 'proficient merchant' becomes Honourable if he (still most likely to be male than female. There were no female merchants of note in recorded history before the 20<sup>th</sup> century) is also of good character and good manners, which also enable him to think in the long term (cf. *ibid*: 135). Bauer, thus, already addressed aspects of sustainability in commercial activity more than a hundred years ago. The epochal change of industrialisation, which defines the entrepreneur as the dominant economic subject, is also reflected in Bauer's Honourable Merchants, who behave honestly towards employees, customers, suppliers and competitors. Towards the end of his book, which considers international trade in detail, Bauer focuses on the relationship of the merchants to "his" community, suggesting that merchants should feel obliged to support the common good, which reflects ancient political positions, and are continuations of the activity of bourgeois Honourable Merchants. Through his work,

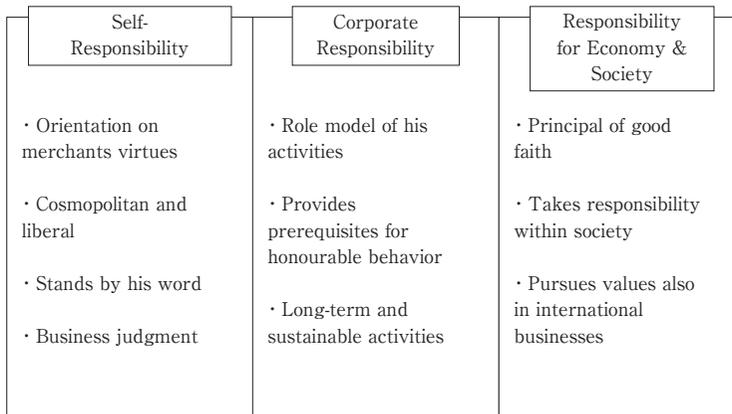
Bauer creates perspectives which are transformed into a management science theory that was still in its infancy, but which also involved an awareness of the respectable commercial behaviour.

## 7. Corporate Purpose and Responsibility of Honourable Merchants

The historical analysis has shown that the ideal of Honourable Merchants with their ancient predecessors has hardly changed since the Middle Ages and overlaps with the more legalistic and philosophical tradition that began with Adam Smith and became codified in legal doctrine in the 20<sup>th</sup> century. The guiding principle has always been part of the training of merchants and consciously educated. The socio-historical analysis shows that society at any time determines by and large what is "honourable" for merchants, or more contemporary, what is "responsible". The responsibility model Honourable Merchant rests on three pillars (see Figure 1): self-responsibility, corporate responsibility and responsibility towards the economy and society.

### 7-1. Self-Responsibility

The basis for self-responsibility is humanistic. On this basis, Honourable Merchants need a comprehensive economic expertise and a solid character, oriented towards virtues that promote economic efficiency. The virtues do not serve primarily to accomplish good deeds, they serve their own credibility, which creates trust, which in turn is essential for good business relations. The sound character also protects the merchant from ill-considered acts,

**Figure 1 Responsibility Model Honourable Merchant**

source: own representation

for example, of obtaining other advantages at short notice. For Honourable Merchants, business and ethics can not be separated from one another, they have merged into a unity with the aim of successfully managing its business as a way of discharging the individual's duty. Honourable Merchants develop a sense of responsibility for the things that determine their business success.

### 7-2. Corporate Responsibility

The sense of responsibility of Honourable Merchants at the company level is characterised by their relationship with their employees. The satisfaction of the employees causes, and not just contributes to, commercial success. Employees are to be treated fair and humane but are also expected to perform. Secondly, business customers and their suppliers follow which Honourable Merchants apply their principles with the aim of establishing and maintaining good relations with them in the long term. Personal ties strengthen the company, and this extends to relations with inves-

tors who should place long-term trust in the company.

### 7-3. Responsibility Towards Business and Society

The responsibility does not end at the factory gate. Honourable Merchants know that the society in which they run their company is decisive for the success of the company. However, members of society are not always aware that they can only prosper when an economy creates and promotes responsible entrepreneurship. On the part of business, however, the basic understanding is more likely to be that companies and society are dependent on one another if they want to increase their respective prosperity.

To this extent, Honourable Merchants have a strong sense of responsibility regarding the corporate as well as the society level. The latter can be seen, for example, by social engagement at the company's location, public and political information about the company's activities and objectives, the defence of the

market economy, and sustainable environmental protection in all company decisions.

## 8. Conclusion

Especially since the financial market crisis, the call for responsible corporate management has become louder. Citizens in many countries fear that existing control mechanisms might not be enough to put a stop to financial gamblers in an ethics-void context in the future. To this extent, the financial crisis revealed both societal and corporate deficiencies in the basic understanding of responsible, sustainable, honourable and thus successful, corporate leadership.

Most of the public is likely to agree that only those who are economically successful are also able to act efficiently in the interest of society and the environment. And this in turn means that the economic viability of companies and the willingness to assume responsible management are inseparable.

At this point, Corporate Purpose and the principles of Honourable Merchants coincide and come into play. As has been shown, the guiding principles assume that responsible behaviour enacted by those in leadership position is the basis for sustainable economic success and social peace in society. While much of this had been lost as social responsibility became more codified in law rather than driven by practice and collective value, today we may be seeing a move back from legal doctrine to moral suasion and collective value based action.

Modern Honourable Merchants have a strong

sense of responsibility on the corporate as well as the societal level. This includes fair behaviour towards employees, customers and business partners, as well as the development and supply of innovative products and services, social commitment at the company's location, transparency of company's policy towards the public, defence of the market economy, and sustainable environmental protection in all company decisions.

In this context, it is encouraging to see that most of companies have long recognised the benefits of sustainable business and have included responsibility into their corporate strategy. In this respect one cannot transfer the misconduct of a few to judge all managers or even all entrepreneurs. After all, not every (financial) manager exercises short-term interests to the expense of the long-term and sustainable economic success, namely the traditional entrepreneurial principle of Honourable Merchants.

It should also be noted that frequent controls by auditors and regulatory authorities, of the supervisory boards, as well as the greed of small and large investors, have made possible higher returns while neglecting business risks. The recent financial market crisis certainly had numerous causes. But, as the argument above has shown the misconduct of their actors was primarily individual and not institutional, and many examples of "dishonourable" merchants and their criticism by society exist throughout history as well.

Arguably, economic crises create opportunities to learn and to stimulate a discourse on the relationship between business and society.

Economy and society are mutually and interdependent with companies prospering mainly in modern societies with a high level of education for their citizens, well functioning markets and strong legal certainty. On the other hand, modern societies depend on successful companies, as only these can increase the prosperity of a society through market success. Companies and society are therefore interdependent and the value systems that guide both are mutually reinforcing.

Responsible leadership based on the guiding principles of Honourable Merchants will continue to be the success formula to ensure economic and social progress in the long-term.

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