

# **GLOBAL DEVELOPMENT STUDIES**

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## **SHOULD FIRMS BE PROFIT-DRIVEN OR ETHICALLY-DRIVEN?**

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### **ABSTRACT**

**A**lmost everyday we are subjected to crises which should not only be understood in an economic, social, political and technical context, but above all, they must be read in an ethical dimension. This article illustrates why the crises and failure of society on so many issues can be corrected by means of ethics. Specifically, this article argues why firms should be ethically-driven as opposed to profit-driven, based on a virtue-ethics framework. Notions of the common good, code of ethics, and cooperative game theoretic models are used to develop this framework.

# SHOULD FIRMS BE PROFIT-DRIVEN OR ETHICALLY-DRIVEN?

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## 1. Introduction

It is apparent from the history of humanity that almost everyday we are subjected to crises of conflicts which are usually characterized by unachieved goals and projects, shattered dreams and illusions, and glaring injustices.<sup>1</sup> We face many obstacles in the environment around us, such as envy, prejudice, and misunderstanding due to ignorance. Perhaps the greatest crisis that faces society is the loss of a sense of what is right and what is wrong. There is a loss of a sense of the past as objective standards are increasingly being replaced by subjectivist and relativist ideas. The goal or good of society is also a forgotten concept as there is little time for reflection on the common good. We have become a society of "vagrants": we continue to abandon our traditional values and we have lost sight of our final goal. Modernity has proved to be a degeneration and disintegration of society rather than progressive steps in an evolution of culture. Today, a grievous moral uncertainty has taken roots, with the degeneration of family and morals and where a dangerous conflict of ideas and movements dominates. There is no thought of an end; and moral, philosophical, and anthropological explanations are refuted. The crises should not only be understood in an economic, social, political and technical context, but above all, it must be read in an ethical dimension since every human event derives its distinct humanity in the context of what would lead us to our goal.<sup>2</sup> It is only on this (ethical) basis that we can evaluate and understand the other dimensions (economic, social, political, technical).

For example, common moral sense will tell us that economics should be at the service of people, and so we need to transform business and their work methods to restore people to their primary foundation of work and their primacy over capital. Until this is recognized and addressed, there will continue to be tension between capital (the owners of capital) and labor. The fundamental reason for this antagonism lies in the error of considering the human person (and consequently his or her work) as an instrument to produce goods and of considering work from the point of view of its economic purpose. Work in fact bears witness to the dignity of a person, and it is an opportunity to develop one's personality. Work is also a bond of union with others, the way to support one's family, and a means of aiding in the improvement of society and the progress of humanity. A related example is that of unemployment, which is normally viewed as an economic, political, or social problem. Being unemployed is an ethi-

cal problem because it is a symptom of the presence of a moral disorder which is found in society whenever there is an infringement of the hierarchy of values. Although unemployment can be attributed to apparently inevitable technological or economic causes, generally it reflects the subordination of labor to capital, that is, an inversion of values and not just a technical problem.

We are living in a period of time-space compression, much of it induced by the high technology revolution, and this has resulted in greater insecurity in society. The breakdown or "disequilibrium" in society occurs when the advancement in science and technology is not matched by ethical maturity. People then become overwhelmed by material goods and the pursuit of self-centered pleasure. It is by using our intelligence that we can analyze, synthesize, and formulate policies for attaining "equilibrium" or what can be better termed as human development. Promoting the common good through authentic human development cannot be reduced to the increase in material wealth or to a technical, economic, or financial concept. These are however necessary but not sufficient for human development and for the flourishing of culture. Development entails the creation of greater opportunities for all to fulfill themselves in accordance with their dignity. Real progress or development can be achieved by the creative use of intelligence in acquiring wisdom and moral energy to promote the common good.

Geoffrey Hunt, Director of the European Center for Professional Ethics, University of East London, re-enforces the sentiments of the crises facing us today as follows:

Western civilization has probably reached an impasse, expressed as a crisis on all fronts: economic, technological, environmental and political. This is experienced on the cultural level as a moral crisis or an ethical deficit. Somehow, the means we have always assumed as being adequate to the task of achieving human welfare, health and peace, are failing us. Have we lost sight of the primacy of human ends? Governments still push for economic growth and technological advances, but many are now asking: economic growth for what, technology for what? (Hunt, 1997, p. 1).

Noe and Rebello (1994) contextualized this impasse in that higher ethical standards increase economic activity in the short-run which increases opportunities to profit from unethical behavior and erodes ethical standards over the long-run. When this rate of erosion is high, the cycling of ethics and economic activity emerges. What is then required for dealing with the crisis is to focus and to examine the ethical economy which is at the foundation of society and culture. The ethical economy is the subject of discussion in the next section. The third section argues why code of ethics, which have been principally used by many organizations to promote and to instill ethical behavior, are for the most part, ineffective. The framework of virtue ethics and the concept of the common good are used

to illustrate why firms should be ethically-driven as opposed to profit-driven. The article concludes with a call for ethical leadership.

## **2. The Ethical Economy**

The economy or market system is embedded in society and culture and is therefore part of a larger framework, and so the economy must be understood as a specific social-system framework. The economy is made up of valuations, activity, and institutions. Adam Smith held the view that economics is fundamentally a moral philosophy since moral values or ethical motivation are at the basis of economics. Since ethics, is the science which studies practical human good and which leads each person to his or her own ultimate goal, ethical evaluation is essential. The purpose of the economy is to allow every individual to fulfill themselves (materially, culturally, spiritually, etc.) to the maximum through the efficient allocation of goods and services. The ethical economy is directed toward some goal by the efficient use of resources. Efficient allocation requires ethical practices by all and must be directed toward the common good. For example, if the market is characterized by unethical practices, should there be mechanism to prohibit the sales of potentially harmful products to minority, those who are vulnerable, the use of child labor, or excessively low wages paid by multinational corporations? Who decides whether the weaker members of society are less able to make rational decisions? Certainly, if businesses are ethically driven, there would be no conflict between economics and ethics. The market or economy is, therefore, no ethically neutral zone that has no need for ethics; it must be supported by ethics.

Robert MacGregor, President of the Minnesota Center for Corporate Responsibility, says that the market system works best when it is based on moral values and that businesses should contribute to economic and social development. He is also convinced that ethical behavior has a profound impact on corporate performance and can create a comparative advantage (see Glosserman, 1995). In this regard, at the heart of economics is the dimensions of human existence and relations, and so there is an intimate connection between ethics and economics. The ethical economy is also essentially a theory of business ethics. Koslowski (1989) argued that the socioeconomic approach must be supported by socio-ethical one and that the synthesis of individual ethics and microeconomic theory consists in securing a comprehensive weighing up of goods in decision-making.

In the case of conflict between the behavior of profit-maximizing firms and the demands of justice and equity in the market, the ethical economy is necessary to promote and to direct the right intention towards the common good. Since law can only monitor and control external behavior, it is unable to regulate intentions which stems from inner motives. It therefore becomes an issue of ethics, which can be considered an inter-

nal law. The ethical economy would then provide the conditions under which businesses can correct unethical practices through ethical motivation. There, therefore, needs to be a re-integration of ethics into economics. Economics in fact is supposed to be an ethical discipline.

There is increasing evidence indicating that there is a positive relationship between ethics and performance. For example, a study commissioned by The General Agents and Managers Association Foundation in 1995 provided clear and irrefutable evidence that a direct correlation exists between ethical behavior and successful production in the insurance industry. Buban (1995) commented that ethics is the foundation and hallmark of any world class competitive organization. Total Quality Management (TQM) is most effective in an environment that encourages openness, trust, and ethics.

Evidence shows that firms that perform better financially over time are those with a commitment to ethical behavior. Caccese (1997) gives several reasons why profit-driven companies give ethics such prominence: consumer pressure, high employee productivity and customer service, competition (being ethical is a clever marketing strategy), changing social values (people first), and fear of monetary and reputation damage from ethical breaches (in other words ethics is good business). From a study conducted by Johnson & Johnson, the Business Roundtable's Task Force on Corporate Responsibility and the Ethics Resource Center in Washington DC, in the early 1980s, fifteen companies with written codified set of principles were examined. The study found that if you had invested \$30,000 in a composite of the Dow Jones 30 years ago, it would be worth \$134,000 today. With the same investment in these fifteen firms (\$2,000 in each), it would be worth over \$1 million. A study by the Lincoln Center for Ethics at Arizona State University demonstrated that a list of the U.S. corporations that have paid dividends for the past 100 years coincides with the Center's list of companies that make ethics a high priority. Preston and O'Bannon (1997) analyzed the relationship between indicators of corporate social and financial performance within a comprehensive theoretical framework. Their results, based on data for 67 large U.S. corporations for 1982-1992, revealed a strong positive correlation.

High ethical standards have also given Inland Steel the discipline it needed to build strong partnerships with customers over the long term (Berry, 1995). In boom times, the high prices on the spot market have tempted Inland to make some fast money rather than continuing to ship to customers at lower contractual prices. Inland had stuck by its long-term partners. On the other hand, Reichert et al. (1996) in their study of the impact of illegal business practice on shareholder returns for the period 1980-1990 found that public announcements of indictments for major corporate crimes had a significant and long-term negative impact upon shareholder wealth, particularly for firms found guilty of the indictment. Too many firms are tempted by "shortism" at the expense of long-term sustainability. Ethical attitudes, therefore, lower the costs of economic

transactions, increase efficiency, and increase the opportunities to increase profits. This is not to conclude that, if a firm is ethical, it would make more money in the long-term. Ethics is a necessary but not sufficient condition for a successful business. There is no guarantee that being ethical will necessarily lead to successful economic performance. Technical competence, competitive business strategies, appropriate economic organization, effective communication skills, efficient operating procedures, and the like provide the sufficient conditions for survival and growth.

It is appropriate to close this section with Adam Smith's Invisible Hand argument which has been used to provide justification for neo-classical economic theory and the basis for the market process. This justification, however, has been taken out of context. Much has been said about the "invisible hand," which is usually interpreted as the individual pursuit of one's own interest will result in the maximization of the interests of society, in other words, a society is no more than the sum of the individuals of which it is comprised. However, Bishop (1995) on re-examining Smith's work more closely, revealed that the nature of the invisible hand argument applied only to specific economic activities such as investing capital. It did not apply to the pursuit of self-interest in general. The invisible hand argument says that it is permissible to invest one's money in one's own country to maximize the return. In any case, the invisible hand argument is understood to work implicitly under an ethical basis, although Smith did not draw ethical conclusions. The model of the invisible hand is somewhat deterministic in the sense that it did not explicitly recognize the individual's moral responsibility and freedom. This is not to say that Smith discounted the importance of the ethical economy since, as a moral philosopher, he did write a treatise on ethics (*The Theory of Moral Sentiments*).

### **3. Ethics, Virtue and the Common Good**

#### **3. 1. Code of Ethics**

Codes of ethics have been principally used by many organizations to promote and to instill ethical behavior. However, while many firms have been adopting codes of ethics, professional codes of conduct and corporate credos that focus on the implementation of specific rules (for example, how you ought to behave, do's and don'ts, etc.), many of these firms find it difficult to implement or to practice these codes of ethics.<sup>3</sup> The difficulty, as pointed out by Hunt (1997, p. 34), is that without any ordinary moral sense, codes are at best seen as a warning or a threat. For example, Lindsay et al. (1996) findings of a survey of the *Financial Post's* Top 1,000 Canadian Industrial and Service companies revealed that although ethics-related control mechanisms, particularly codes of conduct, are being used by a good number of organizations, many companies may only be paying lip service to the importance of promoting ethical behavior. Harris (1995) found that some 60 percent of U.S. businesses have formal

codes of ethics; yet these ethical codes have made very little difference to the course of events.

Codes of conduct tend to focus on the avoidance of wrongdoing. They do not inspire employees to more worthwhile habits of behavior to achieve excellence. Betsy (1996) findings of a study using a competing values framework to describe the dimensions of ethical codes suggested that codes are generally framed from a defensive position designed to protect the organization from the employee and are not written for the most part, using guiding or visionary language. If someone had no idea what it is to trust, to keep a confidence or to respect privacy, codes would simply become another procedure in the mountain of bureaucracy. Companies must also move from the stage of defining a code to implementing it. Kennedy (1996) raised three criticisms concerning codes: they are minimalists, they are merely public relations or compliance pieces, and they are unsuccessful. In any case, ethical codes are only as effective as the willingness of those who comply strictly with them.

This is not to say that code of ethics is not useful. If properly designed, Buchholz and Rosenthal (1998, p. 177) commented that codes of ethics can be useful in specifying what kind of ethical behavior is expected of employees in their specific responsibilities, they can clarify what the organization means by ethical conduct, and can be effective in encouraging ethical behavior. The authors further remarked that the best codes of ethics state what the company values are and what it stands for as far as ethical conduct is concerned, instead of being rule-oriented codes that are just another part of a management control system. Rather than focusing on rules, an approach which is concerned with how people should behave as opposed to telling people how they "ought" to behave is more practical. Such an approach is that of virtue ethics<sup>4</sup> which is fundamentally concerned with the character and motivations that involve the individual pursuit of excellence. Ethics then would not be perceived as a constraining force on behavior as traditional approaches promote, but rather, it would now be a liberating force since it depends on the individual's ability to pursue excellence through virtuous acts.

### **3. 2. Virtue Ethics**

To begin our discussion on virtue ethics, let us consider the question of what is the ultimate purpose of a business. When this question was posed to several business executives, diplomats, and academics at a seminar I presented recently, there were quick-fire responses of maximizing profits or creating wealth. What was interesting, was that after these quick-fire responses, there was a pause for reflection (I later learned that most of these participants had not reflected on the goals of their businesses or their lives). After all, profits are no more the purpose of a business than eating is the purpose of life. Profits is a requirement of any good business that must be met. We all want to lead happy and fulfilling lives.

In that case, if we are not using our positions in organizations to help ourselves and others fulfill ourselves, of what use are businesses? After all, deep down we all know that corporations exist for people and not the other way around, so profits cannot be the reason for the existence of a business. Robert Mercer, Chairman and CEO of Goodyear Tire and Rubber, supports the above reasoning, as he puts it, "Profits are like breathing. If you can't breathe, you can forget everything else that you are doing because you're not going to be around much longer."

From a virtue ethics perspective, MacIntyre (1984) distinguished between internal and external goods or goals. External goods, when they are achieved, are always some individual's property (for example, profits, honor, fame, prestige, and material wealth). Internal goods are goods that have intrinsic value and are the outcome of competition to excel. They are unique, intangible, and unlimited in supply. The Rokeach (1973) values survey gives examples of external goals (terminal values) and internal goals (instrumental values) which are given in the Appendix. Internal goals require an ability to recognize and exercise virtues (for example, honesty, integrity, and perseverance). Within a virtue ethics framework, the pursuit of internal goods or goals takes precedence over external goods which becomes consequential. For example, if a firm pursued an external goal of profit, they would constrain themselves to some finite limit. However, if internal goals are pursued (in this case it encourages the creative use of human intelligence and ingenuity - an unlimited resource), then the level of profits that can be realized becomes unlimited (since internal goals are not limited in supply). Internal goals are then the driving force for the external goals and so larger profit margins could be realized. So, if firms wish to maximize profits, they should be ethically-driven (the pursuit of internal goals) as opposed to profit-driven (the pursuit of external goals). The business of business is therefore ethical business. So to talk about a theory of business, one needs to talk about a theory of ethics in business.

Companies that have seriously adopted ethically-driven or people-centered strategies (for example, elder-care assistance, flexible scheduling, job-sharing, adoption benefits, on-site summer camp, fitness centers, removing many work rules, providing technology to allow work from home and other sites, allowing people to set their own work goals, methods, and work hours) have seen clear gains in productivity, sales and profits, customer service, retention rates, reduction in absenteeism, positive impact on employee morale, and increased and timely launching of products. Johnson (1994) remarked that maintaining high ethical standards help firms to create psychologically healthy working environments; avoid losses to employee theft, expense account padding, and employee sabotage; avoid litigation in the areas of product safety, safety of the work environment, sexual harassment, and discrimination; develop trustful relationship with clients and establish stable, profitable relationships and minimize the catastrophic risk of scandals or disasters that destroy companies



and careers. Good ethics then is good business. For further examples and details of ethically-driven strategies and policies see *Business Week* (1996), Teal (1996) and Reder (1994).

### 3. 3. The Common Good

We now turn our attention back to the main question, "What is the ultimate purpose of a business?" The answer in fact gives rise to a much broader issue and is the central ethical task of every age, every nation, every business, and every individual. This purpose is to advance the good of the individual human person and human family, otherwise known as the common good which is the goal or good of society. The more complex and interdependent the world becomes, the greater the need to stress the common good as an antidote to aggression, domination, and exploitation. Kelly (1995) remarked that the common good falls into that much-quoted category of "I may not be able to define it, but I know it when I see it, and I know even better when it is not present." For example, the common good would require the obligation to reinvest surplus wealth into the economic process to promote more employment and more wealth, or to pay a just salary—that is, above mere subsistence level and considering the needs of the family.

One tangible method of promoting the common good is through participation and ownership. O'Boyle (1994) reported that research results indicate that participatory enterprise is more efficient than hierarchical forms of organization, it institutionalizes social cooperation instead of excessive competition, and it promotes meaningful work for all those who want it. The role of work and the worker is based on a foundation for dignity. Human beings are more than mere instruments of work. They are the subject of work, not the object. Bryun (1991) notes that evidence shows that support for worker participation and worker ownership will help to save jobs, maintain local flows of capital, and promote community development. Firms moving toward higher levels of self-management have the potential to be more productive and efficient, reduce absenteeism and labor turnover, curb the extent of tardiness and malingering among employees, and reduce pilferage. Further, they provide the best structure for employees to develop a sense of purpose to save money and increase efficiency by reducing the corporate costs of middle management and the multiple costs of bureaucracy. Finally, the evidence suggests that cultivating self-managed firms can help reduce local social problems with a consequent lessening of the financial burden of government and ultimately the tax payer.

De Torre (1984) discussed the principle of solidarity (fundamental equality of all with the identity of human nature and a common origin of its basis) and the principle of subsidiarity (what can be done by the smaller body should not be done by the large one as this would stomp private initiative) as actualizing the dynamics of the common good. The principle of

solidarity stresses the common good, duties, cooperation, and equality. The principle of subsidiarity stresses the individual person, rights, privacy, and freedom. There needs to be a balance between both principles since liberalism (which over-stresses subsidiary) and socialism (which over-stresses solidarity) are the two extremes resulting from the loss of balance. De Torre further argued that to avoid these errors it was necessary to define the person as related to the common good and to define the common good as related to the person as follows:

The individual self as open through love of self-giving to the infinite self, and, through this self-expansion, open also to other finite selves (and to all finite things) are committed to promote the immanent common good of society (and the universe) [emphasis added].

A juridical order<sup>5</sup> and social situation such that the opportunities for every person in society to develop himself or herself to the full (materially, culturally, spiritually) are maximized (The Common Good) De Torre (1984, p. 22).

The common good is perhaps one of the most controversial issues of every age and has occupied our attention from the times of Greek philosophers to the present. Kelly (1995, p. 5) further elaborates on the common good as follows:

The common good is achieved when each person contributes to the whole in accord with his or her abilities and with awareness of this legitimate needs of others. The common good then is a social reality, both a means to and an end of social justice, encompassing economic, social and moral development. The common good is also the rationale for all public authority which is to attain the common good to the advantage of all the citizens and the whole person.... Unless the common good and social responsibility become the focal point of national, international and global discussions and commitments, the current patterns of economic exploitation, social dislocation and political domination will continue and we will never achieve that justice which is the foundation for peace.

#### **4. Cooperative Game-theoretic Models and the Common Good**

A society consists of people who have common goals and whose activities are organized by a system of institutions (familial, communicative, economic, judicial, political, administrative, and educational) designed to achieve these goals. Society can be considered the highest-level organization. It can be thought of as an organism whose various functions are fulfilled by certain specific organs (institutions). The common good then arises from the fact that we are all called to form a social community in which persons recognize responsibility for themselves as

well as for others. If these organs do not function properly or work in harmonization, a crisis evolves. In other words, if these organizations have different and self-interested goals that are not in line with the common good, then there are enormously negative consequences to society. These outcomes are because of rational self-interested behavior of agents and institutions which are in pursuit of power and profits. Buchholz and Rosenthal (1998, p. 56) put this point in context as follows:

This view of the atomic, singular self or person is also found in the utilitarian view that the community is a collection of atomic individuals, and moral decisions are justifiable by their consequences for this collective whole, consequences that may well be at the expense of individuals. It is likewise found in Kant's view of the autonomy of the person, which can stand over against the common good. Indeed, this accepted, unquestioned, presupposed view of the atomicity of the person or self is the common basis for positions as diverse as traditional individualistic or interest-group liberalism and traditional conservative laissez-faire economics, pitting the individual squarely against communitarian constraints in an ultimately irreconcilable tension (emphasis added).

For example, consider the classic case of the "Tragedy of the Commons," which describes a situation where there is a common pasture (the commons) which is utilized by cattle from different owners of a small town. As the town grows and develops, the commons are overgrazed, hurting each cattle owner because each advances his or her own interests by maximizing the size of the herd. This example shows that if all the owners were to behave cooperatively, then everybody would benefit and be better off than if they were to pursue their own interests. This is the concept or paradox which game theorists call the "social trap" which is a situation where individual rationality may lead to short-term benefits, but in the long-term the consequences can be disastrous; whereas, collective rationality leads to a more favorable outcome for everyone.

Consider a second well known variation of the prisoner's dilemma which has been used extensively in the literature on game theory: the case of adverse selection between seller and buyer.<sup>6</sup> The seller can produce either low or high quality goods and the buyer can offer either low or high prices.

The seller would always produce low quality goods since it is a dominant strategy over the high-quality strategy. For example, if the buyer offers a high price, the seller would produce low quality as opposed to high quality since the payoffs are "profit" and "breakeven," respectively. If the buyer offers a low price, then the seller would also produce low quality (payoff is "breakdown") as opposed to high quality (payoff is "loss"). In other words, whether the buyer offers a high or low price, the seller will always produce low quality. Using a similar reasoning, the buyer would always offer a low price whether the seller produces a high quali-

ty or low quality good. The optimal or equilibrium pair strategies for this adverse selection problem, given that both seller and buyer are rational, self-interested, profit-driven agents, are for the buyer to offer a low price and the seller to produce low quality. The payoff to the seller is "breakeven" and the buyer is in a "worse" position.

Table 1 gives strategies and payoffs for both agents as follows:

**Table 1: The Adverse Selection Problem**

		<b>Buyer</b>	
		<b>Offer High Price</b>	<b>Offer Low Price</b>
<b>Seller</b>	High Produce Quality	(Breakeven, Better)	(Loss, Best)
	Low Produce Quality	(Profit, Worst)	(Breakeven, Worst)

Note: The first entry in the pair of payoffs in each cell refer to the payoff of the seller, while the second is that of the buyer.

If instead of being profit-driven, both agents were ethically-driven (that is, both agents would want to promote the common good) the buyer would offer a high price and the seller would produce high quality and the respective payoffs would be "better" and "breakeven." When both agents act altruistically, both are better off. If all of us were to live altruistic (choose to act cooperatively in this case) the greatest revolution of all times would take place. Note that "profits" are greater under ethically-driven strategies (in this case, acting cooperatively). With the common good as focus, the interests of all become indistinguishable as all individuals, groups, and organizations work toward the good of all.

The issue now becomes whether cooperation can prevail. The first point to note is that the corporation is a moral entity. Lines (1987) made the point that the corporation's true substance was a collection not of material things but of the efforts of individuals. Because corporations benefit from many opportunities as they function in an open and free society with only limited regulation, and they are given the full protection of the law, society is justified in expecting full reciprocal action by corporations. Corporations should then recognize a duty to act for the common good. The reality is that many people and corporations act in their own self-interest with utility maximizing behavior. There has been a gradual break with the universal common moral sense in which early societies were more conscious of community rather than that of individuality as pointed out by the following quote:

In the Hindu economy, it is the nature of food to be shared out. Not to share it with others is to kill its essence, it is to destroy it both for oneself and others. Wealth is made to be given away. The economy was based upon the principles of generosity and not on the conventional economic models based upon the assumption of self-interested acquisitiveness. Contemporary societies that are built upon the latter model hedges against insecurity by ringing itself with material goods. Societies built upon the former traditional model did not attempt to build a rampart against life's vicissitudes with possessions but built a rampart with people. People and what they were, are what made life secure, not how much they had [emphasis added] (Stickers, 1993, p. 450).

The issue now begs the question "can cooperation emerge in a world characterized by rational self-interested, utility maximizing agents?" Three basic types of ethical behavior can be identified: (a) the agent always acts morally under any condition; (b) the agent acts morally if all other people act morally; and (c) the agent agrees that if all people acted in conformity, this would guarantee the best possible state; but he or she thinks it to be more advantageous for his or herself not to act according to the rule. In ethically-driven society, the first case above is a fait-accompli. In the other two cases, Axelrod (1984) has demonstrated that cooperation can indeed emerge using the tit-for-tat strategy which is a solution to the "prisoner's dilemma" game that is repeated rather than a one-shot situation. Simply stated, the tit-for-tat strategy is to cooperate on the first move by the competitor; thereafter, do whatever the other competitor did in the previous move. The tit-for-tat strategy gets around one of the main deficiencies of game theory which is dealing with the reality of cooperation (keeping promises) since it usually manages to encourage cooperation whenever possible while avoiding exploitation. The reason that the tit-for-tat strategy works very well is that with infinite repetition of the game, the expected gains from cooperation will outweigh those from undercutting.

Cooperation can also be sustained through the practice of virtues. Solomon (1992) emphasized that the role of virtues in business was to guide and to motivate behavior for the betterment of the community. It is one of the dimensions or considerations that make up the framework of virtue ethics in business. Solomon argued that members of a community and their self-interest are for the most part identical to the larger interests of the group, and that our individuality was socially constituted and socially situated. In addition, competition does not replace but presumes an underlying assumption of mutual interest and cooperation. Mintz (1996) also reinforced this point that virtues facilitate successful cooperation and enable the community to achieve its collective goals. Therefore, for sustainable and meaningful cooperation, one needs to pursue the appropriate virtues or interior goals which would make the basis for successful cooperation possible.

The main idea of game theory is based on the realization of interdependence amongst competitors, which is a basic characteristic of all games. With respect to the relationship between interdependence and the common good, Pope John Paul II (1988) made the following observations:

In a world divided and beset by every type of conflict, the conviction is growing of a radical interdependence and consequently of the need for a solidarity which will take up interdependence and transfer it to the moral plane. Today perhaps more than in the past, people are realizing that they are linked together by a common destiny. The idea is slowly emerging that the good to which we are all called and the happiness to which we aspire cannot be obtained without an effort and commitment on the part of all. This determination is based on the solid conviction that what is hindering development is that desire for profit and power. Interdependence must be transformed into solidarity, based upon the principle that the goods of creation are meant for all (*Sollicitudo Rei Socialis*).

The interdependence relationship between the individual and society stresses the necessity to define the person as related to the common good and to define the common good as related to the person. Buchholz and Rosenthal (1988, pp. 56-57) described this consideration as follows:

The view of the self as inherently an aspect of an ongoing social process is a radically different way of understanding the self that denies the atomistic view. According to this view, in the adjustments and coordination needed for cooperative action in a social context, human organisms take the perspective or the attitude of others in the development of their conduct. In this way there develops the common content that provides a community of meaning, such that communication can take place because there is a common basis of understanding. Without this shared meaning, people in a society have no way of understanding each other; in fact, it could be said that no society exists unless there is some common content. Selfhood comes about through awareness of one's role in a social context. It involves the ability to be aware of oneself as an acting agent within the content of other acting agents. Not only can selves exist only in relationship to other selves, but no absolute line can be drawn between our own selves and the selves of others, since our own selves develop only insofar as others enter into our experience. The origins and foundation of the self are social or intersubjective; the self is not a given that constitutes the basic building block of society as in atomic individualism (Buchholz and Rosenthal, 1988, pp. 56-57).

Waters (1993) has suggested a market structure that can help promote the good of society since competitive markets do not always

bring about the social benefits of higher outputs, lower prices, and optimum efficiency. He termed it workable or effective competition which is characterized by a market that has a product that is somewhat heterogeneous to assure competitive uncertainty (contestability), has an elastic demand curve, and is actively threatened by potential competitors. A model of workable competition is that of Japan. Tezuka (1997) commented that simultaneous competition and cooperation among Japanese companies have fostered growth and a system without losers. In Japan, there are virtually no firms that have could establish and keep monopoly positions. Japan's most successful industries exhibit a pattern of competition, which although it has reduced profit levels in the short term, has stimulated technological innovation and resulted in improvements in productivity and quality. What this amounts to is cooperation in a competitive economy.

## 5. Conclusion

We can now understand why the failure of society on so many issues can be corrected by means of ethics. The real issue becomes a question of how we can have stability or equilibrium in a pluralistic society where there is dispute on the moral contents. The common good is the goal of society, corporations, and individuals; and it has been one of the most controversial subject this century. Few studies exist that define the common good in an explicit way. If that is the case, then how can public policy be properly evaluated in the absence of a benchmark or an adequate criterion? We can also see that companies are, therefore, above all, a means by which its employees may best satisfy their needs and achieve their development as people. Management, therefore, has an ethical obligation to support employees' right to fulfill their self-defined potential. The role of businesses, therefore, is to provide an environment that would allow and encourage people to achieve their goals which at the same time promote and realize the corporations and societal goals.

To advance directly along a path, it is important to know the destination beforehand (an archer does not accurately launch an arrow without first looking at the target). For many of us, we have lost sight of the goal or good of society. There is, therefore, a need for all of us, particularly academic, business and government leaders, for ethical reflection on the common good. Our lives here on earth are already short, like a blink; it is not so much the little time that remains in our lives, but it is more a matter of how much time we have wasted. In many cases people amass a great fortune only for it soon to be left for others. What does all this effort add up to? Is it all for nothing or pointless?

In our experience, we have observed that the greater part of our lives is spent in conflict. Conflict produces endurance, and endurance produces character, and character produces hope in attaining peace (self-actualization) or development and the common good. Since our environment is characterized by perpetual conflict, to attain peace does not con-

sist in a situation where one has no problems, but rather in the resoluteness of full hope of one who manages to rise above the conflicts through endurance and virtue (or character). Conflict is a way by which we perfect our character. Conflict is, therefore, necessary for us and is the normal way to grow in virtue. Our intelligence and will are swamped by our passions. It is through the virtues that we can develop and acquire self-control—the intelligence and will work in tandem—and direct our efforts toward the common good.

There is also a call for ethical leadership. Too many individuals and groups pursue their own self-interest without regard for the common good because of mistrust, but (the author believes) largely out of ignorance. Ignorance is the cause and root of all that poison societies and nations. What is required is leadership that refocuses individuals' attention on higher visions and collective goals, and to create conditions for subordinates to express their own creativity. For instance, Bennis (1988) commented that the United States is characterized by narcissism, as the individual ranks higher than society and the concept of the "common good" has deteriorated. He further commented that people are retreating toward individual "cocooning" and away from engagement, and universities are producing career-oriented specialists rather than creatively thoughtful generalists. The paper concluded that there is the need for leaders and dreamers who possess vision, virtue, and the passion to lead the way back to reality. As well, society is dependent on the careers of all professionals and business people at all levels to lead it to a vision of the common good. This transformational leadership should be a merger of competence and moral purpose committed to the common good.<sup>7</sup> Bass (1990, p. 53) noted that the transformational leader asks followers to transcend their own self-interests for the good of the group, organization, or society; to consider their longer-term needs to develop themselves rather than their needs of the moment; and to become more aware of what is important. Essentially, the transformational leader is a developer of people and a builder of teams or communities. Tichy and Devanna (1986) described transformation leadership as a behavioral process capable of being learned and managed. It is a leadership process that is systematic, consisting of a purposeful and organized search for changes, systematic analysis, and the capacity to move resources from areas of lesser to greater productivity to bring about a strategic transformation.

## ENDNOTES

1. Much of the preamble in this section, particularly on the use of human intelligence, is discussed in more details in de Torre (1989a), (1989b), (1986).
2. Ethics can be regarded as the science which leads each person to reach his or her own goal as a person.
3. A 1994 survey entitled, "Ethics in American Business: Policies, Programs and Perceptions" published by the Ethics Resource Center in Washington, D.C., found



that 60 percent of respondents had formal codes of ethics.

4. Kennedy (1996) advocates the use of the term "virtue theory" rather than "virtue ethics" since he pointed out that it is a serious mistake to add "virtue ethics" to the approaches that are employed to provide answer to the question of what one ought to do in each situation. "Virtue theory" is, instead an answer to the question of what sort of person I must become to do the right thing (and therefore to be able to live a good human life).

5. A juridical order is an order of rights and duties based on justice.

6. In its essence, the adverse selection problem refers to a biased and incomplete exchange attributable to asymmetric information. This example is adapted from McGuigan et al. (1996, pp. 440-442). The payoffs are derived using standard neo-classical analysis.

7. De Pree (1994) gives characteristics of the nature of leadership competence and signs of moral purpose.

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**APPENDIX**  
**ROKEACH VALUES SURVEY**

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**Terminal values - External Goals**  
**(Ultimate goals or desirable end states)**

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A comfortable life (a prosperous life)  
 An exciting life (a stimulating life)  
 A sense of accomplishment (lasting contribution)  
 A world at peace (free of war and conflict)  
 A world of beauty (beauty of nature and arts)  
 Equality (brotherhood)  
 Family security (taking care of loved ones)  
 Freedom (independence, free choice)  
 Happiness (contentedness)  
 Inner harmony (freedom from inner conflict)  
 Mature love (sexual and spiritual intimacy)  
 National security (protection from attack)  
 Pleasure (an enjoyable, leisurely life)  
 Salvation (saved, eternal life)  
 Self-respect (self-esteem)  
 Social recognition (respect, admiration)  
 True friendship (close companionship)  
 Wisdom (a mature understanding of life)

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**Instrumental values - Internal goals**  
**(Desirable types of behavior to attain end states)**

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Ambitious (hard-working, aspiring)  
 Broad-minded (open-minded)  
 Capable (competent, effective)  
 Cheerful (lighthearted, joyful)  
 Clean (neat, tidy)  
 Courageous (standing up for your beliefs)  
 Forgiving (willing to pardon others)  
 Helpful (working for the welfare of others)  
 Honest (sincere, truthful)  
 Imaginative (daring, creative)  
 Independent (self-reliant, self-sufficient)  
 Intellectual (intelligent, reflective)  
 Logical (consistent, rational)  
 Loving (affectionate, tender)  
 Obedient (dutiful, respectful)  
 Polite (courteous, well-mannered)  
 Responsible (dependable, reliable)  
 Self-controlled (restrained, self-disciplined)