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Competition and Corporate Reputation

Competition is relatively seldom discussed in present-day business ethics. Reasons could be that the social contract and stakeholders paradigms, central in business ethics, do not easily make room for competition and competitors. Reflective contributions concerning the issue of competition refer to its function in a civilisation process and in social progress. More directly related to ethical considerations are remarks made by Frank Knight (1923), Tom Sorell (1994) and Norman Bowie (1999). The paper summarizes these contributions, and then presents recent discussions concerning basic institutions of the social fabric, *vz.* the market, government and civil society. The thesis of the paper is that, in order to regulate competition in a morally legitimate way, interventions are needed by representatives of these basic institutions, working together in alternating alliances, and referring to moral norms that are inherent in the market system itself as well as to external, overarching norms, derived from human morality at large.

1. Introduction

Competition is the hallmark of the free market. Business operations on the market are intrinsically connected with competitive interventions. From the point of view of business ethics this raises the question: *In what way and to what extent is a moral corporate reputation compatible with competitive practices?* Is, yes or no, competition an obstacle for morality in the market?

Oddly enough, the question is hardly phrased this way in present-day business ethics literature. Studying American and European publications in the field, one seldom finds texts that explicitly treat the moral implications of competitive practices¹. This is strange. Traditionally, business ethics welcomes endeavours to foster collective wellbeing and general welfare. Competition, for its part, is generally praised as the motor and principal promoter of prosperity and economic development. This, one would think, makes competition into a privileged social instrument, also from a moral point of view. Yet, if business ethicists discuss competition at all, they mostly do it in a parsimonious tone, considering it an inevitable evil more than an asset in market relations.

This leads us to three more specific questions:

- . why is competition relatively rarely mentioned in business ethics?
- . what kind of contribution, if any, business ethics has to make, directly or indirectly, to our understanding of the morality of competition?
- . in what way can competition and corporate reputation be seen as morally compatible?

Before going into these questions more deeply we first have to define our basic terms.

Reputation I use here in a moral sense. Under corporate reputation I understand *the estimation in which a corporation generally is held, on the basis of the fact that its attitudes and performances are in accordance with norms, values and moral assumptions that have acquired validity in a critical and public debate.* I fully admit that this definition, with its emphasis on the public debate as source of the validity of moral principles, implies a specific position with regard to the justification of moral convictions. One can think of other sources of moral principles than the public debate.

Competition is difficult to define from a moral point of view, for the discussion is precisely whether competition as such has, or can have, a moral quality, or whether, in itself, it deserves moral distrust or disapproval. Here we limit ourselves to a distinction between active and reactive competition. *Active competition* I define as the rivalling pursuit of an economic end, the striving for market share, market position or market power by being quicker, better, cheaper or more innovative than your rivals. *Reactive competition* obtains whenever a market participant feels forced, by competitors active in the field, to assume a type of market behaviour that, out of himself, he would have preferred not to choose. Reactive competition implies a submission to ‘the discipline of the market’, as it is called. For the time being, we leave the question open regarding the moral qualities of either active or reactive competition.

But why is it that competition is only rarely mentioned in business ethics?

2. *The silence of business ethics*

I see three possible reasons.

The *first* reason is related to a basic concept, frequently used in Anglo-Saxon business ethics notably, the concept of an implicit or explicit *social contract* as the foundation of social and moral relationships. In the market and in society at large people are bounded by mutual obligations that are rooted in an assumed contract that they have agreed with simply by accepting their position as a citizen and a fellowman. Many Western theories on the structure of society and the ties that bind people are based upon the idea of the social contract – not only political theories, but also moral theories and theories of business ethics. Now social contracts and rivalry are difficult to match. A moral theory on the basis of a social contract has little room for rivalry and competition.

The *second* reason is of a more transitory nature. The present generation of business ethicists shows only a rudimentary knowledge and interest when it comes to economics. They feel uneasy when confronted with the intricacies of economic thinking. Now competition is part and parcel of that thinking. Therefore ethicists prefer to keep themselves at a distance of what they consider to be a very complex concept. An ostrich policy, no doubt, but many an ostrich has found peace of mind by sticking to it.

The *third* reason finally springs from zeal and abundance. Business ethicists have been very active in elaborating the concept of *stakeholders* as one of their major concepts. Stakeholders are all those individuals and groups that legitimately claim that their rights and interests be taken into account whenever corporations are active in the market - and in society at large, for that reason. Several lists of stakeholders have been elaborated, including employees,

clients, suppliers, shareholders, the local community, and sometimes governments, at home and abroad, future generations, and the natural environment. On all these lists competitors are strikingly absent. Sometimes competitors are even explicitly indicated as ‘non-stakeholders’ⁱⁱ. This, again, explains to a certain extent why business ethics has some difficulty in elaborating a moral theory of competition.

So we conclude: competitors do not easily fit in the current way of thinking of business ethics, in its basic paradigms of social contracts and stakeholders notably.

Yet, be this as it is, we still can try to find out whether or not some ideas about the morality of competition are to be found in related fields of reflection. Or even hidden in more general discussions within business ethics properly. I think that, indeed, this is the case.

3. *Reflective contributions*

Some reflective contributions place the normative impact of competition against the background of a broad theory of a civilisation process or of social progress in general. Of both I give an example.

3.1 *A civilisation process*

The Dutch sociologist Ruud Stokvis recently published a book called, in translation: *Competition and Civilisation. Corporations and the commercial process of civilisation (1999)*. His thesis is: competition leads to innovations that cause resistance, from the part of employees who have to adapt to new methods of working, and from the part of the social environment that experiences a shaking of familiar customs. This inaugurates a process in which ways of working and patterns of consumption get closer to each other and the boundaries between classes and ranks disappear more and more. Today, in the Western world at least, not only the manager and engineer but also the craftsman uses a computer and flies for holidays to sunny beaches. Stokvis describes this as ‘a commercial process of civilisation’, with competition as a civilising power. A similar idea, but on a larger basis, has been brought forward by Albert Hirschmann in his brilliant study *The Passions and the Interests. Political Arguments for Capitalism before Its Triumph (1977)*, in which he sketches how, after centuries of contempt, commerce gradually became respectable in European seventeenth century. He quotes the French statesman Montesquieu who remarks:

‘... it is almost a general rule that wherever the ways of man are gentle there is commerce; and wherever there is commerce, there the ways of men are gentle. [...] Commerce ...polishes and softens barbarian ways, as we can see every day.’ⁱⁱⁱ

This resembles Dr. Johnson’s famous dictum:

‘There are few ways in which a man can be more innocently employed than in getting money’^{iv}.

People doing business with each other do not cut each other’s throat, for then the result is only mutual loss, not commerce. We notice, however, that here competition is equalised to

commerce in general. It remains to be seen whether this does not obscure the moral specificity of the *competitive* way of doing business.

3.2 *Social progress*

A contribution of a similar general nature can be found in the report called *Limits to Competition* (1994), produced by the Group of Lisbon, an international think tank reflecting on the question ‘whether competition can rule the planet’. The Group does not condemn competition in itself. But it rejects competition as a universal ideology, and it does not hesitate to depict ‘the fundamentalists of competitive power’ as being ‘aggressive, blind, sectarian and arrogant’. What they deem necessary is ‘a new generation of global social contracts as a basis of a viable world community’: a ‘primary needs contract’, aimed at eliminating gross inequalities in access to primary goods, a ‘cultural contract’ directed towards tolerance and dialogue between cultures, a ‘democratic contract’ intended to found truly global institutions of public administration, and an ‘earth contract’ in view of a sustainable development of the natural environment. Competitive interventions can contribute to produce the economic means needed to implement the contracts, but only when regulated by the ultimate ends that the contracts are designed for.

The intentions of *Limits to Competition* are clear but very encompassing. We come closer to the ethical handwork when we look for some instances of ethical reflection on competition that, rare as they may be, are scatteredly present nonetheless.

3.3 ‘*The Ethics of Competition*’

As far back as 1923, Frank Hyneman Knight published a long article, entitled ‘The Ethics of Competition’. It was reprinted in 1935 in a collection with the same title, and reedited recently with a new Introduction^v. In the article, Knight poses three questions: What values are satisfied by competition, and how efficiently are they accomplished, can competition be seen as a variety of a game, and what does fundamental ethics say about the spirit of competition? His answers, briefly summarized here with the help of Lacroix (1979):

- . in competition market values are at stake that are accessible only to those who can enter the market. The realisation of these values can be efficient, but this leaves open the question about fairness, as the conditions for access are distributed unevenly;
- . competition can be seen as a specimen of the type of games that game theory is talking about: choice problems in situations of conflicts of interests, on the basis of idealized assumptions about the rationality of market participants and about the universality of self-interest of all players. In this sense business competition is a zero-sum non-cooperative poker game, guided by strategy rules that may be legitimate within the realm of the game, but that are not the rules of every day behaviour. Partaking in this ‘game’ may result in the desensitisation of ethical responding to others, and contribute to a decay of the fiducial framework within other social levels. But competitors, customers and the public at large have *prima facie* rights (e.g., safety), which transcend the legitimate field of business strategy;
- . the spirit of competition is characterised by a striving for victory or at least excellence. It fosters a social atmosphere in which there is always some reward schedule for

performance or for status achieved and displayed. From a moral point of view this raises doubts about the ultimate value of such an endeavour.

These are thoughtful remarks. It comes as no surprise, however, that they refer clearly to an ethical approach that nowadays is considered to be only partially satisfying. The phenomenon of competition, *and* the ethical standards applied, remain situated on a general level of reflection. This necessarily leads to rather general reflections.

In more recent publications this inconvenience is avoided. Tom Sorell, one of the very few contemporary business ethicists who pays attention to competition, distinguishes, in his book *Business Ethics* (1994), two types of morally questionable competitive practices. One is when corporations pursue a legitimate end with immoral means, as there are espionage, slander, deception, or bribery. British Airways that intrudes in the electronic clients system of Virgin and, subsequently, offers them exceptionally profitable tariffs applies reproachable means to maintain its market share. The other is when, with acceptable means, price dumping for instance, questionable ends are reached. For then the market system itself risks to be hurt. And that is questionable not only from an economic, but also from a moral point of view.

In the same vane Norman Bowie treats the subject briefly in his book *Business Ethics. A Kantian Perspective* (1999). It is commonly accepted, so he notices, that competition causes universal economic progress, for at high tide all ships start floating. This, at one and the same time, is considered to be its moral legitimation. But this thesis is morally objectionable. For competition may promote economic progress of the whole, but not necessarily of all parts. Competition implies losers, for only one can win. And it implies excluded parties, for some ships are too leaky to take profit from the high tide. This cannot be accepted as an end-state of affairs. Therefore either market activities should be founded on more than just competitive relations, or a purely competitive market needs correction from outside. Bowie defends the position that market activities can only be successful and morally acceptable when they are not only guided by competition but also by cooperation, based on mutual trust and trustworthiness. Without these qualities the market is unable to function in a sustainable way, and loses its moral legitimacy.

These considerations are worthwhile in themselves. They also make a transition possible to a second type of reflective contributions on the place and range of competition, this time based on theories of politics and public administration.

3.4 *Basic social institutions*

Since several years a debate is going on, in Western academic and public circles, about what is called the basic institutions of society and their interrelationships. For decades, if not for some centuries, the construction of the social order was conceived as being founded upon a balance between two basic institutions, the market and the government. Depending on where the accent was placed, the dominant ideology had either a liberal or a socialist character, the two varieties being perceived as mutually exclusive. Two things have changed recently. First: instead of *two* basic institutions, *three* are mentioned today, the third being *civil society* as a distinct intermediate between the market and the realm of public administration. And second: the opposition between liberalism and socialism is transformed into various forms of a liberal welfare democracy, in which the potencies of the market are fully deployed, democratic rules and institutions serve as the means to distribute power and wealth, and general welfare is the

directive aim. In this liberal welfare democracy, the market, the government and civil society each have a role to play.

It is undecided whether social practices or political theory has been the most influential factor in this evolution. In any case, with regard to a normative theory of competition the evolution has several consequences that are not easy to keep in balance.

The first thing to notice is that, globally, the free market as an instrument of social ordering, including its competitive mechanisms, is there to stay. It is highly unlikely that, anywhere, attempts to forcefully exclude market mechanisms can be successful any longer. Regions that once were called 'developing countries' are now indicated as 'emerging markets'. The path forward for Russia and China, but also for the African Continent, has to be constructed through democratisation of the market, more than through political innovations alone. And in the Western world, where, for more than two centuries, the market has been predominant in shaping the social structure, a remarkable shift has occurred during the last decades. Whereas until far into the twentieth century the general tendency was to restrict by law competitive excrescencies wherever deemed present, the emphasis is now on further widening the already open competitive market, by eliminating trusts, cartels, and monopolies wherever possible. We have witnessed this emphasis in the United States for some times already; we are increasingly witnessing it within the European Union now.

So on the one hand we see a steady extension of the realm of competition. On the other hand, however, there seems to be no serious objection against steering, and where necessary restricting, activities on the market in view of a common good. As John Gray remarks in his cutting study *False Dawn. The Delusions of Global Capitalism* (1998), an absolutely free market, hardly or not at all steered by governmental interventions, has only existed in Victorian England between 1840 and 1870. The question is not *whether* the market deserves to be steered, but *how much*, and *how*, and *by whom*.

The question is hard to answer in general terms. Much depends on the ideological constellation in a given area and period, on the state of development of market arrangements, and on the political will and the legal means available to interfere in market activities. Governmental interventions in competitive relationships can thereby be of a different nature and intensity. They can consist in public information about health risks or the dubious origin of a product, in indirect interventions through tax measures or changes in the official interest rates, in direct rules concerning liabilities with regard to activities damaging the natural environment, or in financial incentives in the form of levies or subsidies. All these measures influence the competitive positions of market participants more or less profoundly. In one way or another they are applied in all forms of liberal welfare democracy. The primary aim of the public measures, be they enhancing or restricting with regard to competition, is the maintenance of a social balance, so that market participants as well as outside groups and individuals affected by market activities, are allowed an optimum access to common goods. There is a moral undertone to this arrangement, as all parties are required to recognise that compliance with competition-affecting measures is a moral duty. And it is clear also that the idea itself of 'social balance' has moral implications.

This brings us to the following picture:

In present-day liberal welfare democracies, market activities, including mechanisms of competition, form an essential element in the ongoing process of social ordering. Competition

is both stimulated and regulated by public agencies, according to the actual conditions of the social fabric. This may lead to the conviction that, on the market, everything is permitted that is not prohibited by law and regulations. This, however, only is the case as long as there is a clear distinction between the role of the government and of the market respectively. We have seen that such a functional distribution obtains less and less. Protecting and maintaining the social order increasingly has become a shared assignment for the *three* basic institutions of society, that each of them is supposed to engage itself in alternating alliances in view of the common good. Within this total pattern of shared responsibilities, the moral space and limits of competition have to be determined.

4. *Agents and standards*

This brings us to two final questions: who are the agents of intervention, and what are their norms and standards?

4.1 *Agents of intervention*

If it is true that the social construction of society is a shared assignment of various institutions, then the determination of competition too requires the contribution of various agents. We can thereby think of:

- the government, including politics, that, by its law-making power, is entitled and obliged to contribute to an optimal access to common goods for all social groups;
- non-governmental organisations (NGOs), that, as representatives of specific rights and interests with a more than purely private validity, are able and entitled to articulate the moral position of specific groups in circumstances of conflict;
- branch organisations, that, as representatives of a given industry or service, are supposed to defend the interests of their members *and* to moderate their behaviour, also with respect to competition, among the members themselves, and among members and outside competitors;
- corporations and enterprises, that are entitled to free access to the market, under the condition that they allow to others the same freedom of action that they claim for themselves.

4.2 *Norms and standards*

What, then, are the moral norms and standards that these various agents have at their disposal when intervening, in a stimulative or a regulative way, in the domain of competitive contacts?

A large number of specific moral norms, apt to regulate competitive encounters, could be enumerated here. For now it suffices to distinguish *two basic types of norms*: internal norms, deriving from the moral structure of the market itself, and external, overarching norms, deriving from moral insights that transcend the market domain as such.

Internal norms for competitive behaviour result from the basic principles of market morality, namely honesty, equality, and reciprocity, the moral prerequisites that need to be observed by

market participants for the market to function properly^{vi}. Competitive behaviour guided by espionage, slander, deception or bribery is morally reproachable in the name of the principle of honesty. To obstruct a competitor's access to the market by establishing cartel constructions or maintaining one-sided entry conditions are objectionable in name of the principle of equality. Free-riding is an offence against the principle of reciprocity. Without honesty and mutual trust, without reciprocity and equality, the market system is unable to function in the long run. Violation of one of these principles in the name of competition is an offence against the morality of the market.

External, overarching norms do not only regulate the behaviour of market participants vis-à-vis each other, but also the relations between market participants and individuals and groups outside direct market contracts that, nevertheless, are affected by actions of others on the market. Principles at stake here are, among others: justice, equal opportunity, fundamental rights concerning fair wages, fair prices, a clean environment, a proper share in welfare, locally and globally, and a positive perspective for next generations. Violations of these principles in the name of active or reactive competition are an offence against human morality as such.

It remains to be elaborated which principles correlate most with specific agents and their moral assignments. It seems reasonable to presume that governmental agencies and NGO's will refer primarily to external norms, whereas branch organisations and single corporations more easily will appeal to internal norms. It is also quite likely that single corporations will try to excuse infringements of external norms by an appeal to the exigencies of reactive competition: 'If I don't follow the competitive trend, I'll soon be out of business'. True as this may seem to be, it remains doubtful whether, from a moral point of view, this should be seen as a sufficient justification. And in the light of the growth of shared responsibilities of the basic institutions in society, an appeal to the requirements that go with active or reactive competition is less and less convincing when it comes to indispensable contributions to the common good that legitimately are expected from *all* participants in the social construction of society.

The ethics of competition deserves to be developed. Not only in a restrictive, but first and foremost in a constructive way. Competition as a vehicle of civilisation and social progress, as an instrument of a smooth function of the market. And as medium of social construction. A corporation that is able and willing to let its competitive activities be oriented by these endeavours establishes a solid foundation for its moral reputation.

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ii Sorrell, T. & Hendry, J. (1994), 147

iii quoted in Hirschmann 60

iv quoted in Hirschmann

^vFrank Hyneman Knight, ‘ (1923; 1935; 1997). In Lacroix (1979) pp.41-69 a chapter is devoted to the ethics of competition, largely based on Knight’s article.

^{vi} see Henk van Luijk (1994)