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About the Ethics of Business Competition

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ABSTRACT

We study the ethics of competition in a market economy. The competition between firms and individuals within a firm in a market economy is compared with the competition between species and individuals within one species in the nature, and that between different teams, individuals within a team as well as individual athletes in sport. Our conclusion is that if the competition is fair, it meets the requirements of high ethics, and it is one of the fundamental sources of economic development.

INTRODUCTION

When analysing the ethics of entrepreneurs, we can split the analysis into four topics: the entrepreneurs' duties and attitude toward 1) their customers, 2) their workers, 3) government and 4) other firms. The first two of these are not analysed here, because any entrepreneur who wants to stay in business has a clear interest to fulfill his duties to his customers and workers; cheating either of these groups will hurt the firm in the long run. Though there may exist entrepreneurs making short-term revenues by cheating either of these groups, but in the long run this turns against the entrepreneur. This argument holds also for the entrepreneurs' attitude towards the government and customer firms buying or providing services to the corresponding firm. All of them can create sanctions to a firm breaking laws or negotiated contracts. With these arguments we concentrate here on studying the ethics of competition between firms and individuals within a firm in a market economy.

Economic systems compete with each other at the world market about which system can produce goods with the greatest quality/price -ratio, on the basis of which consumers buy products. If one country does not manage in this competition, its inhabitants' standard of living decreases compared with other countries, and some of them are willing to move to more successful countries. Many times it is the most talented people who are most eager to move, because they have the best opportunities in other countries. This decreases these countries' situation even further. From this we have many examples: African refugees to Europe, Latin-American refugees to USA, East-European refugees to West-Europe etc.

The standard of living - measured for instance by GDP per capita - is a commonly used measure of the individual countries' success in creating welfare for their inhabitants. The inhabitants of a successful country enjoy the fruits of this in various forms: good education possibilities, high wage and employment levels, good quality of health services etc. This competition between individual countries and economic systems is essential for their development, and because most people prefer to live in countries with a high standard of living, all countries must take account of this if they like to keep their inhabitants.

In this paper we analyse the ethics of competition between firms and individuals by comparing it to two other competition processes: 1) Competition between species and individuals within one species in the nature, and 2) Competition between teams, players within a team as well as individual athletes in sport. With this comparison we try to find a perspective for studying the ethics of business competition.

THE ETHICS OF COMPETITION

It is natural that children compete with each other in different games to find out their relative skills and talents they possess. From these games boys and girls learn to compete with each other, similarly as kittens learn to hunt by playing with each other. Competing with other people or the comparison of the achievements of individuals is an essential element of their learning process. At school the results of pupils are compared with each other to find out their relative talents in various subjects. In this way every individual is compared to others in different "games" independent of whether they like it or not. The rules of different games support different types of individuals; basket ball favours long players, chess favours fast calculators etc. A player must thus be careful in choosing the game he will seriously take part, and playing various games improves his self-knowledge to be able to make this decision. If every individual tries to win the competition he seriously takes part, then competition is an effective way to rank the competitors.

In general, the competition process has two main objectives: 1) It is a means to test the efficiency of competing organizations and individuals, and 2) It improves the "players" self-knowledge and teaches them to become more skillful in the "game". The bad feature of competition is that it can be very stressing to players. We can say that a game is fair, if 1) There is free entry into the game, 2) The rules of the game are same for every player and 3) Every player can develop his skills by practising as much as he likes.

Since the days of Adam Smith (first publication 1776, reprinted at 1982), the advantages of free competition for a market economy has been realized. Free competition means firms' free entry to every market and consumers' free choice between the competing products. Smith proposed that free competition of egoistic economic agents, firms and consumers, increases the welfare of the society. "It is not from the benevolence of the buther, the brewer, the baker, that we expect our dinner, but from their regard to their own interest" (ibid. p. 119).

Although a man is possessed of a certain "fellow feeling", every man is much more deeply interested in whatever immediately concerns himself than any other man. Due to this certain sources of control are required over the self-regarding activities of individual men. The state is needed to provide an exact administration of justice to resolve the clashes of interest arising between individuals, and in addition it must protect their property - the fruits of gain without whose enjoyment there could be no stimulus to better our condition. The fellow-feeling is one feature which separates human beings from animals. It originates from the human beings ability to identify theirselves in the place of other people; for instance, the winner of a game can feel pity for the loser on the basis of his personal knowledge of his feelings after losing a game.

The willingness of every individual to improve his standard of living creates competition between individuals and firms, which is the basic source of development in economies. Joseph Schumpeter (1934) presented this explicitly. He stated that economic growth is the result of successful innovating of entrepreneurs, that is, entrepreneurs are the "persona causa" of economic development. Schumpeter described innovation in several ways: 1) Creation of new good or quality of good, 2) Creation of new production methods, 3) Opening new markets, 4) Capturing new sources of supply and 5) Creating new organizations of industry (creating and destroying monopolies etc.).

Every competing firm has the possibility to improve the quality of its products and develop its production technology, which allows it to reduce its product prices. These both affect the sales of the firm, because consumers choose goods on the basis of quality/price -ratio. In a market economy, firms compete with each other, and workers inside a firm compete about their relative position in the firm. If both these competition situations are fair, that is, consumers can freely choose between goods and workers' carees are determined according to their personal skills, then the most effective firms capture the markets, and the most qualified persons raise at the top positions in the firms. Fair competition thus produces an outcome we can consider effective and ethical. This outcome may not, however, please those who do not manage in this competition.

In an ethically high-level society, there exists social security institutions taking care of those people, who do not manage in the above described competition. It is a political matter to decide how much taxes should be collected from successful firms and individuals to take care of the non-successful ones, but if a society wants to be a safe place for its inhabitants, the dispersion of its inhabitants' standard of living should not be too wide. We can think that the level of a society can be measured on the basis of how well it takes care of its poorest inhabitants. Although some form of social security is necessary, it should not decrease the individuals' motivation for competition and distort it, because competition keeps the firms and the economy effective.

Above we presented the benefits of competition for an economy arosing from the profit-seeking behaviour of firms. It is, however, a common claim that the profit-seeking behaviour of private enterprises is immoral or morally criticizable. We can questionalize these claims by making a counterargument: if one firm does not behave in a profit-seeking way in a market economy - because the owners of the firm consider it immoral - the firm operates less profitably than others. Though there may exist persons who like to finance a non-profitable firm, the duty of bank managers is to invest their depositors' money in a safe and profitable way. This rules out their financing of non-profitable firms, which hampers the operation of such firms and can make it impossible. Profitability is thus a necessity for the existence of a private firm, similarly as eating is a necessity for the existence of animals and human beings.

If private firms do not try to improve their efficiency, the evolution of the economy ceases, and the benefits from competition are lost. The ethical duty of a firm manager is to take care of the existence of the firm, that is, to keep the firm profitable. If the manager succeeds in this, the firm can keep its employees and perhaps increase them, although some competing firms may then have to decrease their employment. The firm's existence benefits the whole economy in the form of the working places it offers, the tax revenues it pays and the technologies the firm creates. The survival of a firm may sometimes require quitting workers and suppressing parts of the firm. These decisions can be considered morally legitimate, if without them the existence of the firm would be threatened.

The competition between domestic firms is a zero sum game at the domestic markets, and competition between domestic and foreign firms is a zero sum game at the world market. If, however, competition keeps the firms effective and technologically up-to-date, then the success of effective - and failure of non-effective - firms keeps the firms and economies in the technology frontier. Operating this way competition fulfills its role in promoting economic development, although an essential element of this development is that less effective firms have to close down. This did not happen in the socialist economies, which explains the poor performance of their firms.

COMPETITION IN BUSINESS AND IN THE NATURE

In the nature those species win the survival game, which are best in finding food and adjusting to varying living conditions. The individuals within one species compete with each other about leadership and about who can reproduce its geens, which competition supports the best geens' continuation to the next generation. We can agree that this competition keeps the species vital, although morally thinking the process is in many ways crude and inhuman. Analysing animals' behaviour on moral basis is not meaningful, however.

Predators eat preys, and the populations are connected with this relation. The greater the prey population, the more food for predators strengtening the predator population, and vice versa.

In business we can think customers as "preys" and firms as "predators", and their populations are connected with this relation. A firm can survive in a "lack of food (customers) situation", if it catches its food from other areas (exports), or if it can eat different types of food (expand its activities to other fields). In business, rich and large companies buy small and less successful ones, which phenomena can be legitimated on the basis of development, i.e. showed superiority in doing the business. If this development decreases competition, it may raise product prices. This, however, attracts new firms to the industry, which hinders the price raises. The process is analogous to that where an increase in the prey population attracts more predators to the area, which controls the prey population. A small prey population limits the predator population, similarly as a small number of customers limits the number of existing firms.

If, for instance, every fisherman wants to increase his catch from a particular river, the number of fish decreases in the river, and eventually no-one will get any fish. The more fish fishermen like to sell in a given time unit, the lower the unit price of fish must be, and eventually the business becomes unprofitable. These examples demonstrate the limiting factors customers and other firms set for the success of a specific firm, similarly as the existence of other animals limits the behaviour of every species and individual in the nature. There thus exists similar "laws of nature" in the business competition as there exists in the nature.

Though we cannot expect moral behaviour from animals, we can still analyse the fairness of the competition. Although the competition of survival in the nature is crude, every species and individual has some advantages by which they can survive in this game. The advantage of an antelope against a lion is its speed, and the lion dies if it cannot catch meat. In this way one's well-being means another's misery, similarly as if one firm gets a customer, other firms will lose that customer. On the other hand, if an antelope injures its leg, it has no hope against the lion. This makes the survival game in the nature unfair, because an injured "player" must take part in the game against its will. The business competition is not that unfair, because firms can choose the "games" they take part. On the other hand, a bank may notice its loans to a firm at any time moment, and customers can change their suppliers when they will. These phenomena show that the business competition also has some crude elements.

From this section we can learn two things: 1) The laws of nature controlling animal populations are similar to those controlling the number of firms as well as their expansion, and 2) The most effective species, firms and individuals win both these survival competitions in the long run.

COMPETITION IN BUSINESS AND IN SPORT

The competition in business and sport is similar in many ways. We can think the firms at one industry as teams playing in the same series. The rules of sporting games are clearly stated, and if one team does not follow them, it can be ruled out of the series or punished some other way. The rules concerning the firms' competition are presented in the laws of societies, and there also exists international laws the firms must obey. If all teams obey the rules of the game, they find out their ranking by playing against each other, and we can consider that the competition is fair.

Error-correcting and motivating coaching as well as learning from other teams are suitable strategies for succeeding in sporting games. If one team does not hire good players and coaches, and other teams do, this team will not manage. Similarly if one firm does not employ skillful workers, or does not raise at the leading positions the most qualified managers, that firm will not succeed. If all firms compete about customers according to the existing laws, then the most effective firms will win the competition, and we can consider that the competition is fair. The competition process is analogous in both cases, and it guarantees the development of the players' (workers') skills, playing tools (production technology) and playing strategies (organising the production). In both cases the co-operative skills of players (workers) and coaches (managers) are an essential requirement for success.

High ethics is a general requirement in sport. The athletes competing in olympic games swear an oath about fair competition obeying the accepted rules. An athlete is considered to behave immorally, if he uses forbidden drugs or does not try to win the competition until the last moment. The last requirement allows the betting about the winner, because it rules out pre-negotiated results. Giving up in the middle of the game turns the playing meaningless, which decreases the winner's joy of winning the game. Competing in sporting spirit requires that the winner can enjoy his victory, which occurs if other players have seriously tried to win the game.

In this vein we can consider that business competition meets the requirements of high moral, if all firms try to succeed in the business and they use legal methods in the competition. The existing laws of societies do not, however, judge illegal all immoral behaviour of firms; for instance firms' marketing does not always meet the requirements of high moral. If the laws of societies allow firms to compete by unfair methods, it is the politicians task to prescribe the necessary laws which prohibit this. This takes place in economies all the time in the form of prescribing new laws protecting workers, consumers, environment etc.

If the laws of societies do not represent high moral, it has serious effects on the fairness of the business competition. For example, the referees in the NHL ice-hockey series allow much more rough playing than the European referees. This makes the judging of the games between European and North-American teams difficult, and it is common that the North-American teams refuse to play in the command of European referees. Playing with North-American referees forces the European teams to play rough, which has perhaps developed the game into a wrong direction. This example shows that if the rules of a game allow competition with nasty methods, every player is forced to use such methods if he likes to manage in the game.

If we consider only the ethics of competition, morally high level teams, firms and individuals should play fair. On the other hand, there always exists individuals with low moral, and if the means of the competition are not controlled, the competition will favour these. If we thus want that the most effective teams, firms and individuals win the competition, we have to set strict rules for the competition and control that these rules are followed. These rules should represent high moral. An important element in this is that the laws (rules) are similar in every country. If, for instance, the environmental laws (doping rules) vary between countries, those countries with less stringent laws (rules) attract pollutant industries (doped athletes) by lower costs (better practising conditions). The international trade of these products (international competition between athletes) then favours the pollutant firms (doped athletes), which makes the competition unfair.

CONCLUSIONS

We studied the business competition by comparing it to the competition in the nature and in sport. Competition is an important means of development in all these cases, although it can be crude and immoral. In sport and business the rules (laws) can be prescribed so that immoral competition becomes punishable. In the nature this is not possible, but judging animals' behaviour on moral basis is not meaningful anyway. With suitable rules and their effective control, competition is an effective source of economic development, and it meets the requirements of high moral.

Competition classifies firms and individuals into successful and non-successful categories, which the latter group may consider unpleasant. People's fellow-feeling is the moral basis for helping the non-successful competitors, which is an important factor in keeping the societies safe. The social security can be financed by taxing the successful ones, and it is a political matter to decide the exact tax rate and the organising of the support. Essential in this is that the support does not distort the competition process, and it does not decrease the competitors' motivation for competing.

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