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**The Scientific Approach of the Wittenberg  
Center for Global Ethics (WCGE)  
and the Role of Business**

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Presented in Atlanta, September 28, 2013

**Preliminary Note**

We have different scientific traditions in Germany and in the USA. In the following presentation I hold myself to the distinction, commonly made in Germany, between the terms “moral, moral behavior” and “ethics”. Accordingly, “moral, moral behavior” refers to the behavior or the attitudes of individual actors in all domains, from private life to political and economic activity; while “ethics” refers exclusively to the philosophical theory of this behavior, of these attitudes.

**1. The Vision**

In classic terms the vision and goal of moral conduct is Eudaimonia – happiness – or, expressed in modern terms: a good, successful life for all human beings. On this point there has been a consensus in ethics over the last 2500 years. The precondition for realizing this vision is to overcome poverty in the broadest sense, which includes material poverty as well as mental and social impoverishment. On this point, also, there is general agreement today.

**2. The Role of Business**

The vision of happiness for all can only be achieved in cooperation with profit-seeking corporations, not without them and certainly not against them. Private corporations possess two essential assets which the political system – the governments, the community of states – and NGOs does not have, namely: (i) capital and (ii) the ability to organize complex wealth-generating processes in an efficient way. Private enterprises are instruments for the creation of social wealth. We need, in the words of Andrew Young, a “public purpose capitalism”: The economy should serve the people.

Private enterprises can only fulfill this task, however, when they are in a position to follow the systemic logic of the market economy, i.e. of capitalism. Competition and the prospect of earning a profit create the necessary incentives. From this it follows that corporations can only meet other demands, including morally-motivated demands, when these do not contradict the logic of the economic system. Expressed in another way: Private corporations should be in a position to fulfill moral requirements already on the basis of their own self-interest, as a sufficient – albeit not necessarily the only – incentive. This is the central proposition, which we shall stress repeatedly in the course of this talk. Accordingly there is the need for an elaborated ethical theory that demonstrates why and how self-interest and profit-seeking can converge on, and go together with morality.

### 3. The Basic Features of Our Approach

There are essentially two strategies whereby enterprises can act morally under conditions of global competition. In real-life practice these two strategies occur in various combinations. But for purposes of analysis it is important to examine each of them here individually, in order to achieve the greatest possible clarity.

**(i) The Competitiveness Strategy.** Moral behavior can pay off (in the long run). In many situations corporations can achieve competitive advantages through integrity, fairness, transparency and respect for their employees, customers and social environment. I call this strategy the competitiveness strategy.

In this case competitive advantages are achieved through customers preferring businesses that are seen to act in a fair, ecologically oriented manner; through greater attractiveness as a partner and employer, and by gaining a favorable reputation in society generally as well as in relations with institutions of local, state and national government.

For moral behavior to pay off is neither automatic nor always possible. Realizing the competitiveness strategy is a demanding task for the management of a firm. It often requires giving up the goal of maximizing short-term profits – but with the purpose of achieving greater, sustained profits in the longer term. Indeed, under conditions of competition, nowadays global competition, no business can escape from the necessity of maximizing profits – also not for moral reasons, since this would adversely affect the company's ability to accomplish the moral task: This moral task consists of providing good, affordable and innovative products to meet the needs of people. Expressed in positive terms we would say that businesses can pursue only such moral aims as can be seen to make sense as wise business investments, even if the social environment and the business actors involved understand their behavior *prima facie* as "moral".

When the management of a firm makes a serious and systematic search for such possibilities, they will often find ways to make morality and business compatible with each other. Here it is obvious that morally motivated business investments – like all investments – can also sometimes fail.

In the context of global competition, the strategy we have just described frequently does not work. In that case there is a second strategy.

**(ii) The Institutional Strategy.** To understand this second possibility we must first analyze the fundamental problem. It lies in the fact that services, rendered in advance or in addition by a corporation out of moral motives, which lead to additional costs and are not compensated for (or overcompensated for) by the market, give rise to competitive disadvantages and can ultimately threaten the existence of the firm. No ethical theory can demand that from companies, and so far none has done so, including also most religious systems of ethics. Put briefly, the problem lies in the danger of exploitation of services, performed in advance or in addition for moral reasons, by less moral competitors. Classically this was formulated by Thomas Hobbes already in 1651: If a person chooses for moral reasons to remain peaceful, without other people doing the same, that person has thereby chosen "to expose himselfe to Prey, (which no man is bound to) rather than to dispose himselfe to Peace" (Leviathan, ch. 14).

Thus, competition is the cause of the problem: The logic of competition implies a preventive maximization of resources – preventive, because whoever is strong or the market leader today cannot know whether he will be overtaken by his competitors tomorrow or the day after tomorrow. What option does morality have in this situation?

Following Karl Marx, the socialist systems eliminated competition, which had been recognized as the cause of the problem. But thereby socialism also eliminated the beneficial effects of competition for the public welfare, as became clear no later than 1989. At the same time socialism created new moral problems, above all dictatorships.

Immanuel Kant – according to the mainstream interpretation – demanded that norms of morality must be followed unconditionally, "categorically", without any consideration of the consequences. But in the long run this would drive precisely the moral actors out of the market.

Accordingly, both of these approaches to solving the problem are excluded, for economic and moral reasons.

From the standpoint of economic theory, real growth in the overall prosperity of societies through competition and the striving for profit is compatible only with the classical conception of Adam Smith. Here a distinction is made between the action of economic players and the rules of the game; or, in the language of Nobel Prize winner James M. Buchanan, between "choices within rules" and "choices of rules". As in sports, fairness or morality in competition is basically assured through the rules of the game, and a referee – in government the judicial system – who punishes violations of the rules. Competition takes place in the moves taken by the players. Here in competition each of them must strive for their individual advantage. However, this competition takes place according to rules which insure that the competitors are subject to identical moral standards. The penalties are to be designed in such a way, that no player can benefit from violating the rules. Thereby, the self-interest of the players is already sufficient to deter violations.

Competition benefits the general welfare and prosperity of all, only when it is subject to suitable rules. These rules insure that economic actors who try to gain advantages through fraud and corruption, will be removed from the market by sanctions, either directly or indirectly. Market economy – which means competition under suitable rules, enforced by sanctions – is institutionalized solidarity. The social order “is the institutional path — we might also call it the political path — of charity” (Pope Benedict XVI, Encyclical “Caritas in Veritate”, no. 7). Improving the social order through appropriate reforms is what I call the institutional strategy. In contrast to the competitiveness strategy, which aims at directly improving the moves in the business game, the institutional strategy aims at improving the moves in an indirect way, by improving the rules of the business game.

It is the institutional framework (the framework of rules) which must establish conditions under which self-interest is already sufficient to insure moral behavior; and in which immoral behavior is (to a large extent) prevented already on the basis of self-interest, via the threat of sanctions. This does not exclude that the persons involved may in fact pursue other motives – including moral motivations – in their own view of their activity; it means only that all morality must be economically grounded, must in other words be supported by the expectation of private advantage.

The rules can be of a formal nature, enforced by a national or supranational system of sanctions (by the national state, the UN, WTO etc.). But they can also be informal in nature, which means, established through a collective self-commitment of business actors and having informal, non-governmental sanction mechanisms such as loss of reputation or termination of business relations. Examples include the Global Compact, sectoral agreements, codes of conduct such as the Code of “Responsible Conduct for Business” and the initiative “Ethical Basis of Manager Salaries in the Banking Industry”, both moderated by the Wittenberg Center for Global Ethics and signed by leading CEOs. In the absence of a global institutional framework such informal systems of rules, established through collective self-commitment, are becoming more and more important. Concerning the development of formal and informal rules I want to refer you to the work of my colleague Christian Kirchner WCGE.

What does this approach accomplish? As a first step we point out two important merits.

#### **4. First Result: A Cartography of Possibilities for Moral Behavior**

Our conceptual approach provides a systematic, comprehensive map of all the ways in which moral visions can be realized in the context of global competition with its ruthless logic, and how corporations can become involved.

Corporations can voluntarily commit themselves to morality, to moral standards, in order to thereby achieve sustainable commercial success. They can then pursue the competitiveness strategy.

At the same time our approach also shows the limits of the competitiveness strategy: When under given conditions, moral behavior on the market no longer

pays off in the long run, then we can identify good reasons for this. Namely, that an individual business – in its actions – is absolved from these moral requirements from the given moment on, until the conditions were changed. The reasons for this are also justifiable to the public.

Finally, our approach shows that in the given case, business actors have a second option for committing themselves to more morality: They can and must strive to establish collective self-binding agreements – even if this occurs outside the realm of official political institutions, as in the case of the Global Compact. Business actors should contribute with their know-how to the development of the needed rules in a self-confident and transparent way.

Competition requires rules. The establishment of such rules is in the long-term interest of the business actors themselves, as the recent financial crisis and debt crisis, with many bank insolvencies, has demonstrated most impressively. Competition without rules is ruinous, or to put it in classical terms: It leads to a situation in which people's lives are "solitary, poore, nasty, brutish and short." (Thomas Hobbes, Leviathan, ch. 13)

## **5. Second Result: The Prisoners' Dilemma as a Generalization of the Problem Structure**

The problem structure which we have developed so far for the logic of competition can be generalized in such a way, that we can apply the same theoretical tools to the problem of public goods. The model is the prisoners' dilemma of game theory. This dilemma embodies the problem structure for competition as well as for the issue of public goods, which has become more and more important.

Competition presents us with the prisoners' dilemma on the same side of the market, that is, among competitors. In the case of public goods such as the battle against poverty, corruption, environmental pollution, financial system instability etc. we encounter the same positive incentive structure, which leads the individual business to look only to its own individual interest. In this case also, the individual entrepreneur must constantly be concerned that his own moral behavior will be exploited by competitors who do not behave morally. The only difference lies in the normative assessment of the problem structure. In the case of public goods we want to overcome this structure in order to achieve cooperation and collective agreements. In the case of competition we seek to maintain the structure and to prevent cooperation, as for example among market suppliers, to prevent the formation of cartels. But the problem structure and the incentive structure are identical in both cases. From this it follows that in both situations each player must take care that his efforts, performed in advance or in addition for moral reasons, will not be exploited by others.

In this problem structure we can steer the actions of the players only through incentives, in other words, through expectations of individual advantage. The players must be placed in a situation where, thanks to suitable rules of the game, their self-interest is already sufficient to insure that they will behave in a moral

way. Contrary to the mainstream interpretation of Kant, under the conditions of market economy – that is, of competition and consequently the striving to maximize profit – an incentive-based morality is the only option.

## 6. The Model

The model upon which this approach is based was developed by Thomas Hobbes over 350 years ago. It is hardly mentioned any more in modern ethics, up to today. Hobbes distinguishes between two types or levels of moral commitment. These follow immediately and directly from the structure of the prisoners' dilemma, which Hobbes recognized clearly. In this problem structure, which is applicable to all interactions, the individual player is obliged in the first instance – on the first level – only to assume a moral disposition or attitude, but not necessarily to act in a moral way. Hobbes writes: "The Lawes of Nature [= the basic moral laws – K. H.] here oblige in foro interno; that is to say, they bind to a desire they should take place: but not in foro externo; that is, to putting them in act, not alwayes. ... The same Lawes, because they oblige onely to a desire, and endeavour, I mean an unfeigned and constant endeavour, are easie to be observed. For in that they require nothing but endeavour" (Leviathan, ch. 15). Only when a social order has been established, which effectively protects the individual actor from being exploited by an other or others, can this obligation advance to the second level, on which it applies also to the individual's behavior, to his actions – "in foro externo". I interpret Hobbes' expression, "the unfeigned and constant endeavor" to mean a commitment to work toward the establishment of a social order of such a sort, as to make it possible for the individual – and also for the individual corporation – to act morally.

## 7. Additional Merits of our Approach

Besides the cartography of possibilities for moral behavior and the generalized application of the prisoners' dilemma model to business, politics and other sectors of modern society, four additional benefits should be identified here.

I. Our approach is in agreement with the ethical tradition of Western Christianity and philosophy, and with that of most major religions, to the extent that it retains the ideals and principles of this ethical tradition in their entirety. These include above all the freedom and dignity of each individual person and solidarity among all people (brotherhood, charity). But at the same time our approach takes account of the fundamentally changed conditions in today's modern world for the actions of people and businesses. These conditions include above all: (i) the market economy with its competition and striving for profit, (ii) the anonymity of most interactions in today's highly-extended society, reaching far beyond the sphere of personal, family and community relationships, with resulting loss of direct social control and (iii) the per capita growth in the economy since the beginning of the 19th century.

II. Our approach points to the significance of the institutional framework for the moral behavior of each individual person and each individual corporation. It identifies the limits of individual moral actions and the need to shield the individual



corporation from excessive moral demands. Systematically excessive demands for morality lead to the danger, that individual actors find themselves at a constant disadvantage and therefore finally reject morality completely, because they see it as impracticable in the conditions under which they have to act. Conversely, our approach defines and helps to establish the conditions under which moral behavior is possible.

III. Our approach avoids the systematic weakness of pragmatic individual decisions, which are often merely intuitive and arbitrary. In contrast, our approach lays out the framework for moral behavior, provides a clear orientation and makes individual decisions coherent within that framework. Its principles guide the actors like a compass rather than a navigation system. We in Europe, especially in Germany, have learned much from the pragmatic attitude of American business ethics. Now, thanks to the further development of the concepts and principles presented here, we are in a position to deal with morally-relevant business decisions in a systematic manner and to render them consistent.

IV. Especially important is, finally, the attitude and spirit with which people approach social and political problems that hinge upon the prisoners' dilemma. Here, according to our view, there can be no one-sided assignment of blame, for example on corporations, managers, banks, politicians etc. In the classical formula for the prisoners' dilemma, neither A nor B is responsible for the suboptimal outcome. Instead we have only common unsolved problems and the search for solutions that would be beneficial for both (or all) players – a “win-win” outcome. This approach facilitates efforts, necessarily collective in nature, directed toward establishing a good social order for all people.

## **8. The Image of Man and Homo oeconomicus**

For over 30 years now economic science has questioned the traditional idea of Homo oeconomicus, of the economic man. The critique takes two directions, saying in effect: Man is not like that, and should not be like that, if society is not to be destroyed. But why have economists continued to use the notion of Homo oeconomicus so successfully as an analytical instrument?

Contrary to the identification homo = human being, Homo oeconomicus should not be understood as a positive or normative conception of man. Rather, it is a theoretical construct intended for analyzing the results of interactions in situations that can be interpreted as a prisoners' dilemma. In such situations, confronted with the danger of exploitation of his moral behavior in competition and in his contribution to public goods, the individual actor can in the long term only behave as a Homo oeconomicus.

Thus, the homo oeconomicus assumption makes no statement about the “motivation” of the individual actors – quite apart from the fact that one cannot ascribe “motives” to organizations such as corporations. It therefore does not impute any “egotistic” motivations. This assumption embodies the fact that under the condi-

tions we have described, individual persons or individual corporations have no choice but to defend themselves against exploitation of exactly their moral behavior. This holds not only for business actors who are pure egotists to begin with. It holds also for those who "otherwise would be glad to be at ease within modest bounds" (T. Hobbes, Leviathan, ch. 13). They, too, must defend themselves against exploitation by others.

Economists cannot reject this behavioral assumption – which is not an assumption about motives – because in their central areas of work, competition and public goods, they deal mainly with situations that are characterized by the structure of the prisoners' dilemma. They use the homo oeconomicus construct in order to estimate the consequences that follow from such an interaction structure on the aggregated level. Thereby they can also estimate whether or not public goods, which have already been achieved, will remain stable in the long run. For, a few actors behaving like Homo oeconomicus, cause all others – in some cases only after a learning process – to behave just as immorally; not from egotism or greed, but out of self-defense.

## **9. Summary**

The unique selling point of our approach lies in the fact that it sets forth the normative principles and values together with the empirical conditions for their realization, on an equal rank and footing, and in integrated form. A notion of morality and ethics, which demands that actors must consistently and systematically act against their incentives, is incompatible with market economy/capitalism and the systemic imperative of competition and profit-seeking. If we want to realize the great improvement in prosperity which the market economy can bring for all people, in an offensive manner and without a bad conscience, then we need an approach to ethics that achieves morality through and together with economic logic. Here I have sketched such an approach.

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