

## COMPETITION AND MORALITY

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Abstract: We review an argument that proposes two moralities—“everyday” moral norms and “adversarial” moral norms—are required for business contexts. We take issue with an implication of this idea, namely that competitive actions do not need to be in accord with “everyday” moral norms. After showing that the argument for two moralities in business does not succeed, we propose a distinction between two types of competitive actions: *principled*, those actions which comport with every day morality, and *merely self-interested*, those actions that do not comport with every day morality. The merits of this distinction are discussed.

Keywords: competition; morality; adversarial ethics

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### INTRODUCTION

It is commonly assumed that “everyday” or “common sense” moral norms (e.g. treating others as you would be treated, attending to the interests of others rather than merely selfish interests, treating persons as ends in themselves, etc.) apply uniformly in all business contexts. However, some argue that this is not the case. For example, Heath (2007) argues that a single morality is insufficient, and two moralities are necessary for business. His contention is that “everyday” moral norms apply to transactions administered *within* the firm (e.g. transactions between managers and employees) whereas “adversarial” moral norms govern transactions *outside* the firm (e.g. transactions between suppliers and customers) (2007). Heath’s argument has a number of implications, including that competitive actions do not need to be in accord with the norms of everyday morality. For example, Heath’s argument would suggest that it is not necessary to practice the “Golden Rule” of treating others as you would want them to treat you.

We review Heath’s justification for two moralities and find the argument and its implications unsatisfactory. We argue that his attempt to show that competitive contexts are governed by a distinct, adversarial morality does not succeed; and accordingly, that there is insufficient reason

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to discard the long-standing assumption that a correct account of morality in the business sphere is a unitary account. We therefore argue against Heath's assertion that the norms of everyday morality are not binding in competitive business contexts. We also develop a positive argument aimed at showing that competitive actions can plausibly be held to be reconcilable with the norms of everyday morality. Rather than two distinct moralities, we propose a distinction between two types of competitive actions: *principled*, which comport with every day morality, and *merely self-interested*, which does not comport with every day morality.

### THE "TWO MORALITIES" ARGUMENT

Heath's argument is rooted in the notion of the "collective action problem." Heath defines collective action problems as instances where individuals collectively acting in their self-interest achieve suboptimal outcomes. Collective action problems stand in contrast to occasions when individuals acting with self-interest in markets produce optimal outcomes in terms of efficiency and utility. Specifically, Heath advances that in collective action problems, "each individual winds up with an outcome that is much worse than some other feasible outcome, which might have been achieved had they all chosen to act differently" (2007, p. 360). Heath argues that morality serves to prevent the self-defeating outcomes of collective action problems.

Moral norms that are widely held help individuals to cooperate and produce outcomes that are considered positive for everyone involved. For illustration, consider the example of littering. Individuals generally have little personal incentive to make the effort to throw things away while at a public place. It would be much easier to just leave garbage where it is. One person acting self-interestedly in this way may prove to be a (likely small) nuisance. Yet, if everyone followed their self-interest in this regard, public places would be quite different than they are today.

According to Heath, morality in this example works to aid the cooperation of all individuals in setting aside their self-interested littering to ensure that conditions in public places remain sanitary. This becomes a win-win situation—all involved, not just those acting self-interestedly—receive the benefit. Heath argues that the hallmark of immoral actions are those that tend "to generate win-lose outcomes (and when everyone does it, lose-lose outcomes)" (Heath, 2007, p. 361). These may arise in several ways. For example, when a cooperative agreement is present, there is the possibility of individual defection from the cooperation, thereby receiving the benefits of everyone else's effort while acting in their self-interest. (Thus, in this respect the collective action problem is similar to a prisoner's dilemma.)

Having laid the foundation for morality as cooperation, Heath goes on to explain how competition can be morally permissible. The answer, according to Heath is that "desirable competitions also generate positive externalities – benefits to people other than those directly involved" (2007, p. 362). This position follows other work on adversarial ethics, the essence of which is the argument that while an individual act may be wrong, it may be permissible when taken in context of its impact on all aspects of an institution (Applbaum, 1999).

Heath explains that, though not acting cooperatively may constitute harm for other competitors, "the wrongness of this harm [may be] outweighed by the positive externalities generated by the

competition as a whole” (2007, p. 365). For example, price-competition that causes layoffs for employees can yield benefits for a vast number of price-sensitive consumers. Alternatively, desire to gain market share in developing markets that leads firms to bend rules or sidestep regulations can still cause individuals living in those developing markets to have access to more goods and services than they otherwise might. Hence, Heath argues, differentiating morality between external, market-based transactions, and internal, administered transactions is justified. Heath supposes that requiring the same high level of morality for external transactions as is required by the everyday morality for internally administered transactions would disallow competition, and the positive externalities of competition would be lost. For this reason, Heath argues that two moralities are required. Heath’s central assertion, then, is that the competitive act of defecting from a cooperative agreement wrongfully harms competitors, but that if such actions produce enough benefit to those external to the transaction, they are permissible.

We reject much of this argument and its supposition of a dual-standard of morality. Heath’s analysis focuses solely on the harms that a competitive act visits upon competitors, and the benefits, in the form of externalities, produced by the act on external consumers. However, focusing solely on one type of harm and one type of benefit produces a misleading picture – a false dilemma because the picture is incomplete. This is because Heath’s argument does not account for situations where competition fails to produce positive externalities, or, even worse, produces negative externalities. Hence, we argue that his attempt to show that competitive contexts are governed by a distinct, adversarial morality does not succeed.

### **AN ALTERNATIVE ARGUMENT**

But what of the collective action problem? Are there other possibilities whereby a unitary morality can nevertheless accommodate the distinctions that arise in the competitive context? That is: if Heath’s conceptualization of adversarial ethics does not apply, can every-day morality do any better? Can the motives behind competitive actions be reconciled with the norms of everyday morality (e.g. “treat others as you would want to be treated”)? Like Heath, we hold that certain competitive actions are morally impermissible by standards of everyday morality. However, there are also many competitive actions that remain permissible by standards of everyday morality. We propose that competitive action be distinguished into *principled action* and *merely self-interested action*.

Consider how this distinction might be made in the case of the development of new innovations. A unitary morality can account for a variety of competitive actions, e.g., making it possible to provide better value to customers than competitors, or reducing inefficiencies making it possible to sell at a lower price than competitors. We accept that each such action can be undertaken with the express purpose of ruining a competitor, or conversely, can also simply be an action of principle undertaken with the express purpose of better serving customers, or for conserving resources for the financial security of the company and its stakeholders. Thus, competitive actions in the business sphere, particularly those that are motivated by principle, can plausibly be held to be reconciled with everyday morality.

By making the distinction between *principled action* and *merely self-interested action*, we can, for example, account for the bad reputation that competitive action has incurred in general, while retaining a unitary morality which classifies morally impermissible actions as “merely self-interested.” We can also account for the set of competitive actions – principled actions – that are morally permissible, and which should not, for example, damage reputation; despite the possibility that such action may appear to an outsider to be merely self-interested action. By showing how principled action accords with everyday morality, we hope to sustain the assertion that a unitary morality, grounded in “everyday” or “common sense” moral norms (e.g. treating others as you would be treated, attending to the interests of others rather than merely selfish interests, treating persons as ends in themselves, etc.), applies uniformly in all business contexts; and is superior to a dual morality in the competitive context.

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