CONSISTENCY IN DECISION MAKING IN COMPANIES

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Abstract

The concept of consistency, applied to organizations, provides the common thread for a model of decision making that considerably enriches the models traditionally used in organization theory by adding a humanistic and ethical dimension. Extending the theory of human motivation to encompass a variety of motives, we state three conditions for long-term organizational well-being: effectiveness, efficiency and consistency. These three conditions are not independent of one another, nor can they be reduced to one another. Consistency plays a key role as a driver of trust in organizations and is a means of introducing ethics into management theory and practice.

Keywords: Trust, consistency, effectiveness, efficiency, business ethics, human motivation, organizations, organization theory.
Introduction

Consistency, in a person, is “the state of always being the same in thought, behavior, etc.; keeping to the same principles” (Learner’s Dictionary), “firmness of (...) character” (Onlinedictionary Datasegment). It means that the various dimensions of a person (feelings, reason, will) are consistent with one another now and, above all, over time. It does not just refer to consistent outcomes but is compatible with changes of opinion and learning (Schick 1966).

These same two aspects are found in the definition of consistency in human groups, communities, organizations and companies. On the one hand, “that which stands together as a united whole” (Onlinedictionary Datasegment), a “reasonable or logical harmony between parts” (Encarta MSN Dictionary), “a harmonious uniformity or agreement among (...) parts” (WordReference) or “a measure of the ability to hold together” (Onlinedictionary Datasegment). Consistency is therefore not the same as uniformity. It has both a constitutive or structural dimension –the “reasonable harmony between parts”– and an organizational dimension, relating to the coordination of the actions of individuals within an organization (Loasby 2004, 11; Simon 1963 [1982], 399). On the other hand, from a temporal or dynamic perspective, consistency is the “agreement or harmony of all parts (...) at different times” (Onlinedictionary Datasegment), or “the reliability or uniformity of successive results or events” (TheFreeDictionary). Here, too, consistency is practical, in that it gives meaning and unity to the plurality of agents and relates to specific aspects of behavior within a group or society, so that an action may be consistent in one sense but not in another (Spender 2007, 16-17).

A similar concept of dynamic consistency was developed in macroeconomic theory in the late ’70s and early ’80s. According to this theory, an apparently optimal action plan is dynamically inconsistent if a future decision, which was part of the original action plan, ceases to be optimal at a later date, even though there have been no changes in the relevant variables (Argandoña et al. 1996, 254; cf. Kydland and Prescott 1977). For example, the decision by a country’s central bank to raise interest rates when the inflation rate accelerates will cease to be optimal when unions make excessive wage demands (which was foreseeable before the central bank announced its “optimal” policy), because the interest rate hike will not prevent inflation; it will more likely trigger a recession. In other words, the central bank’s policy rule is inconsistent.

In this article we are concerned with the consistency of decisions in human organizations in the dynamic and intertemporal sense described in the last few definitions cited above. As in the macroeconomic literature, a decision is to be considered “inconsistent” if it brings about a change in decision rules that makes it impossible for appropriate decisions to be made in the future (Pérez López 1990b, 181-182). We shall try to show that consistency of decisions in a company is a necessary condition for the company to achieve its objectives, whatever those objectives may be,

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beyond simply maximizing the economic value of the company in the short term, because consistency is even more important than accuracy (Simon 1963 [1982], 399).2

We posit a decision maker who: 1) wants to satisfy a present need, 2) knows that this need will recur in the future, 3) has or will have other needs, and 4) will become more capable or less capable of satisfying those other needs as a result of the decisions he makes now with regard to satisfying his present need (Pérez López 1998, 201). This means that the decision maker must evaluate his decision in three respects: 1) the extent to which it will satisfy his present need (we shall call this the effectiveness of the action); 2) the extent to which it will help him acquire skills (operational habits) that will enable him to satisfy this same need again in the future (the efficiency of the action); and 3) the extent to which it will help him acquire capabilities that will enable him to frame his decisions in such a way as to satisfy his present need without jeopardizing the satisfaction of other present and future needs (the consistency of the action) (Pérez López 1998, 202-203).

Transferring this scheme to the context of an organization, we can say that the decision maker (a company manager, for example), 1) wants to solve a present problem by making a decision, 2) which entails interacting with another person or other people in the organization or its environment (other managers, employees, customers, suppliers, etc.), 3) bearing in mind that he will have to make other decisions in the future involving him and other people (not necessarily the same ones as in the previous decision), and 4) that the decision he makes now will affect his ability to make decisions in the future and also 5) the reaction of the people affected by his decision, as well as, 6) in some cases, the reaction of other people. There are three dimensions to be considered, therefore, when making the decision: 1) the extent to which the decision solves the present problem (effectiveness of the action), 2) the extent to which it improves the manager’s ability to make similar decisions in the future (efficiency of the action), and 3) the extent to which it maintains or improves the ability of the other agents involved to respond appropriately to future decisions (consistency of the action).

In what follows we shall concentrate on consistency in personal behavior. This means we shall not pay much attention to organizational structures or institutions, however important they may be in legitimizing, interpreting and framing individual decisions (Loasby 2004, 11). People have “human agency”, an “ability to make a difference in our world in ways that we intend” (Spender 2007, 9). In organizations, human agency may be exercised through direct influence (organizational rules, standards and culture) or through intentions (Spender 2007, 11). We shall focus mainly on intentions.

In the next two sections we present a model of personal decision making that is the basis for decision making in organizations. After that, we discuss the role of consistency in an organization’s decisions. We then explain how ethics can help to achieve consistency, ending with the conclusions.

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3 The person, not the organization, is our unit of analysis. This is not to say that organizations are irrelevant, as we shall see later, merely that consistency in decisions must start with people.
How people decide

Simon (1991b, 26) poses the question of “how the employees of firms are motivated to work for the maximization of the firm’s profit” (Simon 1991b, 26) or, more generally, how they are motivated to work for the company’s goals, whatever those goals may be. Economic incentives (pay or promotion, for example) are only part of the explanation (Clark and Wilson 1961). People’s motives for cooperating in an organization vary. In all cases, however, “the necessary and sufficient condition for an organization to exist [over time] is that there be a group of people who are motivated to belong to the organization, with all that this implies. The organization must choose its goals so that the goals conserve and strengthen those motivations, as otherwise the organization will disintegrate” (1981a 1981, 5). Therefore, “the most immediate way to find out what must be included in any complete definition of [an organization’s] goals is to analyze the relationship between human motivation and organizational goals” (Pérez López 1981, 5).

Why does a person make a decision? Let us assume that an agent (following Pérez López, we shall call it the “active agent”, e.g., a manager) makes a decision within an organization, i.e., in relation to another agent (the “reactive agent”, e.g., an employee). What the active agent expects from the decision is an outcome, which may be: 1) extrinsic (a response from the reactive agent, e.g., the reactive agent performs a certain action); 2) intrinsic (something the active agent learns or the satisfaction he obtains from performing the action, e.g., the satisfaction of managing or learning how to manage subordinates); and 3) external (something the reactive agent, or employee, learns) (Pérez López 1991a, 28). This, in turn, gives rise to three possible motives for action, based on the intended outcome: extrinsic, intrinsic and external motives. In any case, whether the active agent intends it or not, her action will always give rise to each of the three types of outcome, as it will always have an external effect on the active agent, an internal effect on the active agent and an effect on the reactive agent. “Each of these outcomes can be a powerful source of motivation; that is to say, each can be directly intended by the agent and so can be a motive to act” (Pérez López 1993b, 52).

An action can therefore be evaluated using three separate criteria: 1) effectiveness, measured by the satisfaction that the expected or desired extrinsic outcome provides to the active agent; 2) efficiency, measured by the extent to which what the agent learns from the internal outcome makes him more capable or less capable of achieving satisfactory extrinsic outcomes in future actions; and 3) consistency, measured by the extent to which the change in the reactive agent resulting from the interaction makes it easier or more difficult for the active agent to obtain the desired response in future interactions (Pérez López 1991a, 36-38).

Effectiveness, efficiency and consistency can operate in different directions. For example, an action plan may be effective (the employee does what the manager tells him to do), yet inefficient (the manager becomes increasingly dissatisfied with telling people what to do, or in so doing neglects to improve her competencies as a manager) and inconsistent (implementing the action plan makes the action plan itself less effective because the reactive agent stops responding

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as desired). Alternatively, an action plan may be effective and efficient (the active agent’s motivation to perform the action increases), but inconsistent (the reactive agent is increasingly reluctant to respond as desired), making it questionable whether the plan is viable. If an action plan is inconsistent, it will give rise to negative learning on the part of the active agent, in that it will reduce the agent’s ability to see what is really important in the interaction, probably without the agent’s realizing it until it is too late (Pérez López 1991a, 55).

Sometimes, people seem to be not interested in the consistency of their actions. Specifically, this would seem to apply to interactions with non-human environments, or actions involving people with whom the active agent does not expect to have any further interactions in the future (e.g., buying a souvenir during a trip that is unlikely ever to be repeated). The important thing, however, is the change that takes place in the active agent when he considers (or ignores) the effects that the action he is about to perform will have on the reactive agent, because that is the change that explains how the agent can improve.

It is worth noting that the consequences of an action in each of the three dimensions (effectiveness, efficiency and consistency) cannot be avoided, whether the agent takes them into account in her decision or not. The active agent will naturally, even spontaneously, do her best to take the extrinsic effects (effectiveness) of her action into account, and possibly also the intrinsic effects (efficiency); but she will have to make a conscious and deliberate effort to consider the external effects (consistency and, therefore, ethics). Specifically, “human actions affect the ethical plane of reality [the plane of consistency] even if the immediate intentions or objectives of the action […] happen to be on other planes” (Pérez López 1990a, 2).

In other words, a person’s decisions have consequences in all three dimensions, so any changes in the effectiveness, efficiency or consistency of an action change the agent’s decision rule, by which we mean “the set of operations (…) by which an active agent chooses an action” (Pérez López 1991a, 28).

**Decisions in organizations**

An organization is “a group of people who coordinate their actions to achieve objectives in which they all have an interest, albeit for different reasons” (Pérez López 1993b, 13), objectives which they would not be able to achieve, or would find more difficult to achieve, without the

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5 An extreme example would be a decision to cut off the branch of a tree in order to get at the fruit: the action is highly effective but totally inconsistent. Another example would be a manager who abuses an employee’s trust and so makes it more difficult for himself to persuade the employee to collaborate in the future.

6 That people’s preferences can change during the decision-making process as a result of learning is well known (Kahneman and Tversky 2000). The possibility of negative learning, however, is often overlooked.

7 Although the example of the fruit tree shows that, even here, actions can be inconsistent. Cf. Argandoña (2003, 2005a).

8 This is where ethics comes into the decision-making process, because “evaluating human acts according to how much they improve the person who performs them is the very substance of ethics” (Pérez López 1977a, 5).

9 “A kind of cooperation (…) that is conscious, deliberate, purposeful” (Barnard 1938, 4). “A set of possible ways of coordinating human action, or possible joint action plans, the result of which becomes apparent when it is implemented repeatedly” (Pérez López 1981, 12).
combined efforts of the organization’s members (Rosanas 2008, 447)\(^{10}\). Organizations exist, therefore, in order to achieve certain common goals in a way that is compatible with the “different motives” of their members, at least as far as the available resources allow.

Actions inside a company change the decision rules of the people who belong to it and therefore also change the organization itself – and the changes work both ways, not only from superior to subordinate or principal to agent, but in both directions (Rosanas 2008). The immediate consequences of actions within a company will not necessarily coincide with their long-term effects, so an organization must strive not only to achieve immediate results, but above all to acquire the capability to continue to obtain results in the future (consistency) and ensure that they are the best possible results.

Whatever the goals of an organization may be, managers must achieve them. To do this, they must persuade the members of the organization, i.e., the people who possess the human and material resources which the company needs (owners, employees and, to a certain extent, suppliers, customers and other stakeholders), to work together\(^{11}\). Therefore, managers must monitor three “state variables”, similar to effectiveness, efficiency and consistency on the personal plane (Pérez López 1993b):

1) Effectiveness, for a company, is the difference between what the company receives for providing a service to consumers and the resources it employs, roughly equivalent to the profit it makes.

2) An organization must also be efficient or attractive to its members. It will be attractive if it develops skills in its members that enhance their satisfaction or reduce the cost of doing something the organization requires of them, i.e., if it develops distinctive abilities that will enable it to resolve problems more effectively, or resolve more complex problems, because its members are more aware of the needs to be met and more capable of meeting them.

3) Lastly, an organization must also achieve consistency or unity. This is accomplished when organizational members identify with the organization and trust is built up between employees, managers, owners and other stakeholders.

It can be demonstrated that these three “state variables” are necessary for the survival and growth of companies, understood as “groups of people who coordinate their actions to achieve economic results, namely the production and distribution of material goods” in order to “satisfy organizational members’ needs as fully as possible, given the limited resources available” (Pérez López 1987, 1).

Profitability or effectiveness is a necessary condition for long-term survival of a company because without it a company will not be able to satisfy its members’ extrinsic motives. A company must offer its employees and managers a salary that outweighs their opportunity cost (the salary and benefits they could obtain in comparable alternative employment). It must also

\(^{10}\) Furthermore, the people in this group have bounded rationality, at least insofar as they have limited knowledge and computational capabilities (Simon 1947, 1991a, Simon and Associates 1986).

\(^{11}\) This means that the decisions made by subordinates also affect the effectiveness, efficiency and consistency of the decisions made by their bosses and thus also the organization as a whole. In other words, we need to consider the three dimensions from the point of view of both agents, because both are simultaneously active and reactive. This applies equally to the relationship between owners and managers, or even between owners and other stakeholders (customers, suppliers, etc.).
offer its owners remuneration at least equal to what they could obtain in the capital market for the same level of risk.

To do this, it must ensure that the aggregate cost of the contributions it receives from its suppliers of resources do not exceed the revenue it obtains from the sale of its products or services. In other words, by producing goods and services and selling them in the market, a company must be capable of obtaining the material means with which to satisfy the extrinsic motives (mainly income) of those who contribute capital, labor and other resources. In short, a company’s effectiveness is measured by the difference between the resources it obtains from the sale of its goods and services and the resources it employs in producing them, which roughly corresponds to its profit and is a measure of its efficiency in managing material resources.

However, effectiveness (or profitability) is not a necessary condition for a company to exist, nor is it a measure of a company’s success as an institution. “The necessary and sufficient condition for an organization to exist is that there be a group of people who are motivated to belong to the organization, with all that this implies. An organization must choose its goals so that the goals conserve and strengthen those motivations, as otherwise the organization will disintegrate” (Pérez López 1981, 5).

To achieve this, an organization must deliver at least some of the benefits, in terms of effectiveness and attractiveness, which motivate people to contribute. First, the work a company provides must not be unpleasant for its employees, or at least not so unpleasant as to make them unwilling to make the effort that must be made for production to continue. Second, employees must be able to learn from their work in a way that makes them more effective as employees in the future (Pérez López 1991a, 90), bearing in mind that there may be “negative learning” (if the work is boring and repetitive, for example). Up to a point, therefore, there is a trade-off between effectiveness and efficiency, insofar as a company does not need to pay as much for pleasant work as for unpleasant work.12

Lastly, a company must also consider how the employment it provides affects consistency or unity, which could affect its long-term performance. As an economic institution, therefore, the company needs to be both effective (profitable) and efficient (attractive). Yet neither will guarantee survival or continuity. Survival depends on consistency. Contrary to what the economic literature has to say on the subject, survival is not an economic problem that can be solved by designing a control system to ensure that the organization’s operational capabilities are used to satisfy the needs of its members, because designing any such system “is absolutely impossible if organizational members learn – operationally [on the plane of efficiency] or morally [on the plane of consistency] – from their actions in the organization (…). Achieving optimal economic outcomes is not an economic problem; it cannot be solved by manipulating economic variables alone. It depends on psychological and ethical variables. Only if these latter variables were fixed and unaffected by learning processes (…) could the optimal economic outcome be achieved through purely economic processes” (Pérez López 1987, 12-13)13.

Maximizing effectiveness (or profit) in the short term on the assumption that the agents do not learn anything (i.e., as if all other variables remained constant) is meaningless, as the agents

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12 Only up to a point, however, as there will be limits to the trade-off. If a worker has material needs, the company will have to pay him a wage, even if the work is very pleasant and satisfying. And if the work is very unpleasant, paying a higher wage will soon have diminishing returns.
will obviously learn something, in which case the conditions for maximum effectiveness will no longer hold\textsuperscript{14}. Nor is it possible, in advance, to “maximize effectiveness in the long term”, anticipating any learning that may take place, because although we know that the agents will learn, we do not know what they will learn, how they will learn, or how and when their decision rules will change.

Moreover, this is not a problem that can be resolved first on the economic plane (the plane of effectiveness) and then raised to the psychological plane (that of attractiveness or efficiency), and after that to the ethical plane (that of unity or consistency). The three planes are interrelated; they are not independent. So they cannot be reduced to one another and they cannot be processed using a single common unit of measure (Pérez López 1990b, 180)\textsuperscript{15}. This excludes any formal approach based on maximizing a profit or preference function that includes variables representing the other two dimensions.

If, “on a theoretical level, the temptation is to try to reduce corporate reality to the economic plane (…) the risk, in practical terms, is that managers will tend to justify their management decisions in terms of pure effectiveness” (Pérez López 1981, 19-20), i.e., short-term profit maximization. “More serious still is the fact that a manager who adopts such a policy is bound to make inconsistent decisions, as he will tend to maximize his own utility [his pay, for example] at the expense of other members of the organization” (Pérez López 1981, 20).

Every decision within the organization “must therefore respect certain minimum levels of effectiveness and attractiveness [or efficiency]” (Pérez López 1981, 14). “Any organization, in order to survive, must deliver at least some of the benefits that motivate people to contribute” (Pérez López 1993a, 3). Any decision that meets these minimum requirements (i.e., any decision that does not cost more than it earns and that is not unpleasant for the people who have to implement it) will be feasible. “Once the choice has been made, however, a series of consequences will be felt throughout the organization, whether or not those consequences have been taken into account in the decision” (Pérez López 1981, 13). The efficiency and, above all, the consistency of the organization will be altered, “strengthening (…) or weakening it to the point of annihilation” (Pérez López 1981, 14).\textsuperscript{16}

If an action plan is effective but inconsistent, it will be increasingly motivating to the active agent, on account of the extrinsic outcome, but increasingly unmotivating to the reactive agent. The more successful a plan is for the active agent, i.e. the more pressure the active agent is willing to put on the reactive agent to make him cooperate, the less that plan will motivate the reactive agent. There will come a point where the plan simply stops working (Pérez López 1991a, 90-91). Hence the importance of consistency in organizations: “if we had to state the one and only objective of any institution, we would say that it is the future satisfaction of the people who make up that institution” (Pérez López 1993b, 29).\textsuperscript{17}

\textsuperscript{14} “Learning” can refer to two different things: operational learning (knowing how to do things) and evaluative learning (knowing what to do) (Pérez López 1993b, 116).

\textsuperscript{15} In terms of “neoclassical economics”, the three dimensions cannot be integrated in a single preference or utility function, on the level of the individual; or in a single social preference function, on the level of society; or in a single objective function (such as share value maximization), on the level of the company.

\textsuperscript{16} Pérez López is obviously referring to the long-term effects of decisions that persistently and continually undermine the unity or consistency of the organization.

\textsuperscript{17} The relative importance of efficacy, efficiency and consistency may change from one situation to another or from one organization to another. But the three dimensions are always relevant, and the omission of one of them, specially of consistency, may have important consequences for the survival of the organization.
How can organizations be made consistent?

Let us go back to a question by Simon that we quoted earlier: “How are the employees of firms motivated to work for the maximization of the firm’s profit?” (Simon 1991b, 26). As we explained, employees see working for companies as a means to achieve outcomes that they believe will satisfy their needs. There are, as we saw, three types of outcome: extrinsic, intrinsic and external. Extrinsic outcomes belong to the category of “incentives”, as defined by neoclassical economics. But they do not explain “how employees are induced to work more than minimally, and perhaps even with initiative and enthusiasm” (Simon 1991b, 26). For that, we must invoke intrinsic motives, which is what has been done in the literature18, or external motives19 – other-oriented behavior, social behavior, altruism, etc.20

Our notion of external motivation differs, however, from the traditional concept of altruism, insofar as the altruist is assumed to obtain some personal satisfaction from the well-being of others21. Altruism would be understood, in our model, as a form of extrinsic motivation, in that it relates to actions from which the agent expects to benefit. External motivation, as we understand it, is governed entirely by the well-being of the reactive agent, regardless of the impact on the active agent. Moreover, this is not merely a hypothesis; it is stated as a condition of long-term equilibrium in the interaction between agents, namely, to meet the demand for consistency. “For the organization to work well, it is not enough for employees to accept commands literally. (…) What is required is that employees take initiative and apply all their skill and knowledge to advance the achievement of the organization’s objectives” (Simon 1991b, 32).

To explain this we need a theory in which both parties are simultaneously principals (active agents) and agents (reactive agents), because the interactions are reciprocal (Rosanas 2008; cf. Simon 1947; Spender 2007). As Simon points out, organizational loyalty is important and although “in part, these attitudes can be attributed to the linkage between an organization’s overall success and the personal careers and monetary rewards it can provide its employees [extrinsic motives], (…) this explanation ignores the problem of the commons – of benefits that are jointly gained and shared by all, non-contributors along with contributors – and the consequent possibilities for free-riding” (1991b, 34).

Simon offers a solution to this problem: because human beings need to live in society, “each human being depends for survival on the immediate and broader surrounding society” (1991b, 35). This makes the agent docile, i.e., “tractable, manageable, and above all, teachable.

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18 The distinction between extrinsic motives (satisfaction provided by the environment) and intrinsic motives (satisfaction internal to the agent) has long been accepted in social psychology and sociology (cf., for example, Deci 1971, 1975, Lepper et al. 1973, Staw 1976), and also in economics (cf., for example, Bolton and Ockenfels 2000, Fehr and Falk 2002, Fehr and Schmidt 1999, Frey 1994, 1999, Frey and Oberholzer-Gee 1997, Gächter and Falk 2000, Osterloh and Frey 1997).
19 Pérez López (1991a, 1993b, 1998) calls this motives “transcendent”, because “they refer to values that transcend the individual” (Rosanas 2008, 455).
21 As Rosanas points out (2008, 457), external motivation is rational, not just emotional, and may have the dimension of a moral obligation, as Sen suggests (1977).
Docile people tend to adapt their behavior to norms and pressures of the society” (Simon 1991b, 35). Fitness in society “calls for a measured but substantial responsiveness to social influence. In some contexts, this responsiveness implies motivation to learn or imitate; in other contexts, willingness to obey or conform” (Simon 1991b, 35).

How does this tendency to docility come into being? According to the action theory we have presented, an employee may identify with the company for any of the three types of motives mentioned earlier: extrinsic outcomes (higher pay, for example), job satisfaction, or a sincere concern for the impact his actions may have on others. Simon recognizes a similar variety of dimensions: “from an evolutionary standpoint, having a considerable measure of docility is not altruism but enlightened selfishness” (Simon 1991b, 35), although “once docility is present, society may exploit it by teaching values that are truly altruistic; that is, which contribute to the society’s fitness, but not to the individual’s […] and docility is used to inculcate individuals with organizational pride and loyalty” (Simon 1991b, 36). “In a creature of bounded rationality, as a human being is, individuals who are endowed with docility (that is, who are receptive to social influence) have a substantial fitness advantage over those not so endowed, and can (and often will) absorb a large measure of altruism from their social environments while still retaining a net fitness advantage” (Simon 2001, 83-84).

This brings us back to the question of how external motivation and ethics contribute to consistency. Essentially, “the only way an organization can become both more attractive [efficient] and more effective is if its members internalize the organization’s goals. Such internalization requires […] transcendent [or external] motivation, as it is on the plane of transcendent [or external] motives that the ‘invisible hand’ operates, bringing an organization’s ultimate purpose (to satisfy human needs) into line with the motives a person must have in order to develop his own potential (to help satisfy the needs of others, i.e., acting for transcendent [or external] motives)” (Pérez López 1993b, 103). And having these motives depends not only on “what a person does” (effectiveness) or “how he does it” (efficiency), but on “what he does it for” (consistency) (Pérez López 1993b, 104).

Consistency is achieved when there is a climate of trust in the organization (Melé 2001, Reichheld 1995, 2001, Rosanas 2004, Rosanas and Velilla 2003, Simon 1947). A climate of trust requires both “functional trust”, which “has to do with the trustor’s assessment of the operational knowledge and abilities of the trustee”, and “personal trust”, which “has to do with the trustor’s assessment of the quality of the trustee’s motives” (Rosanas and Velilla 2003, 56), i.e., whether the trustee’s decisions are made for external motives, seeking the good of others. This means that consistency creates trust.

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22 This is how Pérez López explains it: when negotiating a sale, a sales representative “will be motivated by the money he expects to earn (extrinsic motives) […] if he is a person who likes his profession, intrinsic motives will likely prompt him to make a special effort to sell […] and if he is an honest professional, transcendent [or external] motives –the desire to provide a service to the customer, i.e., satisfy the customer’s needs while at the same time satisfying his own and the company’s needs— will also encourage him to act in a way that ensures the sale is completed” (1993b, 107).
The role of ethics in organizations

As we have said, an organization’s decisions must be minimally effective and efficient in order to maintain the incentive for employees (and owners, managers and other stakeholders) to continue to collaborate for extrinsic and intrinsic motives. An organization must also ensure that any increase in extrinsic or intrinsic motivation in some of its members does not lead to a decline in such motivation in others. This means that all employees must have at least a minimum of external motivation, i.e., consideration for the needs of others – not because of the consequences this may have for the utility of the active agent, but because of the consequences it is likely to have for the other person. This assumes that the agents are capable of evaluating the impact their actions will have not only on themselves (the effectiveness and efficiency of their actions), but also on others (the consistency of their actions).

And yet the vast majority of human actions cannot be analyzed on the assumption that people are capable of accurately anticipating the outcomes of their actions in the abovementioned three dimensions, as the final outcome of their actions can only ever be known “a posteriori”, when the decision maker has already experienced all the effects that the action is likely to have on his satisfaction. This is not to say that we cannot actively pursue consistency in individual decisions. On the contrary, an agent may acquire the ability to assess the consequences of his actions on all planes (principally the ethical plane) by developing moral virtues. The real problem of morality is not about making good decisions, but about acquiring the abilities (moral virtues) that will make a person capable of always making good decisions, i.e. of acting consistently throughout his life (Pérez López 1993a, 8-9).

Under the rules of ethics each member of the organization is free to use his capabilities to implement the optimal action plan. If an agent acts according to this plan, her actions will be consistent and she will contribute to the organization’s optimal plan. This will only work, however, if the other agents also act in the same way (Pérez López 1991a, 99). If all agents act in this way, each will help the other act consistently; and the organization as a whole will become more consistent and more united (Pérez López 1991a, 181). Ethics helps organizations develop basically by “maximizing the set of feasible interactions” (Pérez López 1990b, 181).

“The mechanism that helps people make decisions that further their own development [i.e., decisions that are consistent] is the mechanism classically known as moral virtues” (Pérez López 1993a, 7). By practicing moral virtues, a person learns to be ethical and develop her ability to act ethically. Decision making is the result of a combination of motives, some spontaneous, others rational. Spontaneous motives demand an immediate decision, based on the expected extrinsic outcome (effectiveness). In the interest of efficiency and consistency, however, the agent may make rational decisions, resisting the appeal of spontaneous motives. Moral virtues strengthen a person’s “capacity for self-governance” or “self-control” (Pérez López 1991c, 3). This capacity is manifested in “something as basic as choosing an alternative that will bring less economic benefit [i.e., a less effective alternative] than one that could have been chosen instead” (Pérez López 1991b, 6).

Ethics is about the way human beings are changed by what they do. This implies moral virtues, understood as operational habits that are acquired and developed through deliberate, effortful repetition of acts undertaken for that purpose (Aristotle 1980). An agent acquires and strengthens moral virtues when she strives to achieve what is good for another person “precisely
because it is ‘good’ for the other person (not because of any other consequences of the action relating to intrinsic or extrinsic motives). By ‘good’ we mean that the action: 1) satisfies the other person’s needs; 2) is intended to help the other person learn (to ‘do what he does better’); 3) is intended to help the other person gain in moral virtues” (Pérez López 1986, 17).

“Every time a person freely chooses something he knows is better, even though it is less attractive than another thing that is worse, she is training and building up the strength that will free her from any pressure which might deflect her from her purpose” (Pérez López 1977b, 10). Once fully developed, moral virtues put the agent in a state where “all interactions are possible” (Pérez López 1991a, 85). An ethical person will always choose the best option: her decisions will be consistent, in the sense that no action will lead to negative learning that might prevent her from making other good decisions, now or in the future24.

How does this translate to the context of an organization? The rules of economics and psychology are sufficient to meet the demands of effectiveness and efficiency, but they cannot guarantee consistency. Consistency depends on ethics, i.e., on the extent to which managers, in the first place, but also other stakeholders acquire and exercise virtues. The action theory we have presented here is a two-way theory, in that it applies to both the principal and the agent. Therefore, if a company is to act consistently, as a unit, everybody in the company must be ethical and develop virtues.

This is difficult to achieve, but not impossible, although the company may never attain perfect consistency. The important thing is that a manager or employee who acts in accordance with moral principles will make decisions that are consistent. And as we explained earlier, consistency will not depend on the effect the action has on the reactive agent, but exclusively on how active agent makes the decision: whether he has made the necessary effort (incurred the opportunity cost) to adopt the consistent action plan, seeking the good of the reactive agent (Pérez López 1991a, 103-104). Apart from this, the company’s organizational structure, culture and rules of conduct must be designed not only to achieve extrinsic (profitability) and intrinsic outcomes (a pleasant working atmosphere and useful operational learning opportunities), but above all to develop consistency.

In any case, acting consistently, i.e., in accordance with ethics, is not incompatible with being effective or profitable, because “spontaneous actions aimed at satisfying external motives seek effectiveness both directly (as an organizational necessity) and indirectly (providing services and satisfying needs in a way that leads to effectiveness)” (Pérez López 1993b, 108). But such actions will only achieve effectiveness “to the extent that effectiveness results from and is aimed at satisfying human needs” (Pérez López 1993b, 108-109). Therefore, consistency or “organizational unity depends on two circumstances, which must both be given and which are therefore necessary conditions for consistency to exist: 1) The organization must measure the

23 Ethics “has to do with what will happen inside a decision maker when she decides. It is not concerned with what will happen to other people (…) or to the decision maker’s own tastes or appetites” (Pérez López 1991b, 7). If the active agent seeks the good of the other person, an action can be ethically excellent even if the other person does not exist, even if the active agent is wrong about what is good for the other person, and even if the reactive agent’s reaction is the opposite of what the active agent expected or intended (Pérez López 1986, 21).

24 Negative learning occurs, for example, “when a manager learns to ignore what might happen to his subordinates if he orders them to do certain things or a sales representative learns to deceive customers, both of them thinking they will be able to ‘get away with it’” (Pérez López 1993b, 100). There can also be negative operational learning. An example would be when, as a result of attributing certain effects to the wrong cause, an agent ‘learns’ something that is not true (March and Olsen 1975, Rosanas 2008).
effectiveness of actions according to how well they satisfy people’s real needs (...)[and] 2) People must be capable of acting for transcendent [or external] motives” (Pérez López 1993b, 109). “Unity –which is equivalent to the extent to which the organization’s members identify with the organization or, alternatively, the extent to which the organization’s members have internalized the organization’s goals – is manifested (or ‘measured’) by the extent to which the organization’s members spontaneously direct their actions toward achieving the organization’s goals” (Pérez López 1993b, 109-110)\(^{25}\).

Conclusions

We have used the concept of consistency, applied to organizations, as the common thread of a model of personal and organizational decision making that considerably enriches the traditional models in organization theory by adding a humanistic and ethical dimension. First, we broadened the theory of human motivation by introducing three types of possible intended outcomes of action: extrinsic, intrinsic and external. This allowed us to formulate three conditions for an organization to operate successfully in the long run: effectiveness, efficiency and consistency. We have assumed that these three dimensions are not independent of one another and cannot be reduced to one another. This complicates the analysis but makes it much more useful for organizing decisions in companies. We also explained the key role of consistency in organizations, how it relates to organizational unity and trust, and its ethical foundation.

\(^{25}\) “Most organizations exhibit a certain degree of unity [consistency], because rarely do all the members of an organization spontaneously act to frustrate the organization’s goals or confine themselves to meeting minimal job requirements. A work-to-rule is a clear example of such behavior. No organization can survive for long under a work-to-rule (...) Most serious of all, equivalent to a fatal illness, is when an organization acts in such a way that it steadily becomes less, not more, united and people become increasingly alienated, instead of identifying with it more closely” (Pérez López 1993b, 110).
References


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