ETHICS IN ECONOMICS AND IN ORGANIZATIONS:
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Abstract

When he died, Professor Juan Antonio Pérez López (1934-1996) left a body of writing on decision and organization theory that represents a break with current scholarly thinking on these subjects. The purpose of this paper is to explain some of the most significant aspects of his theories, which we find precisely in his appeal to ethics as being what defines the actions of human beings, considered as individuals and as members of organizations. Pérez López used the anthropological conception underlying the ethics of Aristotle and Thomas Aquinas to build a solid base for that ethics, starting from the decision-making process. He then used that ethical base to point to the kind of action theory and organization theory that could most effectively assist the human development of people and organizations.

* Professor of Economics, "la Caixa" Chair of Corporate Social Responsibility and Corporate Governance, IESE

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Introduction

"Economics (...) is not incompatible with ethics, [that is] with there being higher criteria, external to economics, that prevail over it" (Argandoña 1985, 297). This statement, written many years ago, somehow sums up my interest in the relationship between economics and ethics. It has to be said, though, that it clearly does not fully reflect what I myself thought at that time about their relationship, as a few paragraphs later I added: "ethics is not given by a set of rules formulated from outside the system (...), but must be integrated in daily life, like a natural, internal component. In fact, ethics is like the condition of equilibrium of the socioeconomic system. It leads us to the conclusion that there are behaviors that tend to destroy the individual and society; and that those behaviors, though apparently profit or utility maximizing, are harmful and are to be to be rejected because they destabilize the system and prevent it from achieving its goals" (Argandoña 1985, 298; cf. also Argandoña 1986, 142-143). Even then, I understood ethics not as a set of rules imposed from outside, but as something that is part of the very "operating rules" of man and society.

My interest in the subject comes from a question I had asked myself earlier. I sincerely believed that ethics was necessary in the lives of people, in social behavior, in institutions and in public policy. But ethics did not feature in economics textbooks: it was not necessary; what’s more, there was no place for it once the distinction –or rather, the absolute separation– between facts and values was accepted (Argandoña 1989). How could I explain to my colleagues that ethics was necessary and must have a place in the assumptions and developments of economic theories, and in policy recommendations?

That is how I began my reflections on the subject, which were decisively illuminated by my reading of the early writings of Juan Antonio Pérez López. My participation in this Symposium

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is therefore to some extent an acknowledgment of his pioneering work and a homage to his contributions, on this tenth anniversary of his death on June 2, 1996.²

I have the impression that Pérez López’s intellectual development was not very different from mine. He was thoroughly versed in the teaching of the Catholic Church, but he understood that, in the human sciences, the Magisterium “is not a basic given (...), it is a verification key, information a scientist receives about whether the theory he is developing properly reflects the reality he is trying to describe scientifically” (Pérez López, 1987b, 267-268).³ In other words, he understood that the role of the social scientist was to “scan the world of the phenomena that are the object of his science for the ‘trace’ of that truth” proposed by the teaching of the Church (1987b, 268). This task led him to the philosophical ethics developed by Thomas Aquinas, who must have pointed him in the direction of Aristotle. And with that baggage, he started to explore theories of action and of the organization.

I think this may explain certain features of his work, such as the lack of references to other authors. It was not that he did not know them, nor that he wanted to hide any intellectual debt to them. It was because in his research he was following a different path, one that he saw neither as an extension of the knowledge developed over the centuries, nor as a departure from certain recent trends, but as a radical change in the way we understand action and human organizations.

For the same reason, his writings contain no references to many of the problems discussed in recent literature on, say, organization theory, such as the nature of the firm, contractual forms, resource specificity or executive pay. I venture to suggest that those problems did not interest him, or rather, they interested him as a social scientist, but the objectives of his research were more basic: they concerned the underlying conditions of action and human organizations. Pérez López’s method was positive science, that is, scientific explanations of reality, but his purpose was eminently normative: “science can have no other object than to help human beings make right decisions” (undated-g, 1) – and that was something he must have learned from ethics. In fact, in his writings he often switches from positive analysis (what happens when a person acts in a certain way) to normative argument (what a person must do in order to achieve certain results).⁴

In this paper I shall try to explain what distinguishes Pérez López’s theories or models.⁵ Given the nature of this Symposium, I shall concentrate on Pérez López’s ethical conception and how it ties in with his decision and organization theories, which I shall not go into in any depth. In what follows I shall first review the main features of Pérez López’s decision theory, which characteristically attributes a dominant role to ethics. After that, I shall discuss Pérez López’s ethical conception. This will lead us back to the relationship between ethics and human action,

² I have drawn widely on unpublished papers by Juan Antonio Pérez López found in his computer after his death.
³ The author’s works are cited by year and page number; full details are given in the References at the end of this paper. I have omitted the underlining he sometimes used in his writing; all emphases, therefore, are mine.
⁴ The following is an example of this ambiguity: “The formal system of a business organization [a company] consists of: a) an operational system that specifies how the agents must behave in order to produce and sell the company’s products or services; b) a distributive system that specifies how the income obtained from commercial activity is distributed, as incentives [incentives to cooperate], among the people who help to make the operational production system work” (undated-c, 1).
⁵ I shall use the terms “theory”, “model”, “conception”, etc., without distinction, even though they do not fully capture the nature of his contributions.
and from there to his organization theory. We shall then look at the relationship between effectiveness and ethics, ending with the conclusions.

**Decision theory**

*Decision problems*—in economics, for example—traditionally are presented in terms of a (human) decision maker who feels a need (a situation that is unsatisfactory to him) and so resolves to perform an action whose result she hopes will satisfy that need (Argandoña 2003, 2005). The problem facing the decision maker, therefore, is to **evaluate** whether the proposed action is the right one to satisfy that need.

Pérez López starts from a similar premise, but adds two further elements: the decision maker (whom he usually calls the “active agent”) is aware that the need will recur, and also that she has many other needs, which she may not be feeling here and now, but which she will also have to satisfy, now and in the future (1981, 9). In fact, the traditional theory is a particular case of Pérez López’s, one in which the agent has no other needs to satisfy, or in which the results of solving one problem do not in any way affect the solving of others.

To solve the decision problem, the decision maker must evaluate the action from three points of view: 1) how well it will satisfy the current need; 2) what effects it will have on the agent’s ability to satisfy that same need when it recurs in the future; and 3) what effects it will have on the agent’s ability to satisfy not only that need, but all her needs, now and in the future (1981, 10).

This implies that the choice of action must be based on three criteria, which Pérez López calls effectiveness, efficiency and consistency. To understand this, we must very briefly explain Pérez López’s conception of human decision making.

For Pérez López, human beings are “‘solvers’ of real problems” (undated-a, 1). A problem is “a situation that is not entirely agreeable to a person” (1991a, 25), a situation, in other words, that manifests a need. To resolve the problem, the person who feels the need (the “active agent”) makes a decision, which gives rise to “an action that transforms the situation so that the person affected by it finds it ‘satisfactory’” (1991a, 25), that is, an action that satisfies the need. The action consists of an interaction between the active agent and her environment, which may be physical or, very often, another person (the “reactive agent”). This interaction has three types of **results** for the active agent: **extrinsic** (the interaction itself, or somehow, the reactive agent’s response); **intrinsic** (other effects on the active agent, other than the reactive agent’s response: for example, what the active agent learns on an operational level, or the satisfaction she gets from performing the action); and **external** (the effects the action has on the reactive agent: for example, what the reactive agent learns as a result of the action) (1991a, 28).

The **effectiveness** of an action is “the satisfaction the active agent obtains from putting her action plan into effect” (1991a, 36), or alternatively, “the extent to which the action contributes to achieving the specific purpose” of the action (1990b, 180). This corresponds to the result of the decision as analyzed by conventional economics, in terms of a utility function subject to restrictions (preferences, resource availability, etc.).

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6 Occasionally, for reasons of simplicity, he limited them to two: effectiveness and consistency. For example, in (1990b, 180ss.).
The efficiency of an action for the active agent is “the value of the learning brought about by the decision” in the active agent (1993b, 2), that is, “the extent to which the action helps to develop the skills (operational habits) that will make it easier to satisfy those same needs when they recur in the future” (1981, 10). This is important because it affects the agent’s ability to satisfy the kind of needs she is feeling now, or other similar needs, in the future.

The consistency of an action is “the value for the active agent of the learning that takes place in the reactive agent as a result of the experience of the interaction” (1993b, 2). The active agent must take into account the fact that the interaction with the reactive agent will bring about changes in the reactive agent’s behavior that will make future interactions either easier or more difficult and so will affect the active agent’s ability to satisfy future needs with that same reactive agent.

Now we are in a position to understand one of Pérez López’s crucial contributions to action theory: for an action theory to be satisfactory it must consider more than just the response of the reactive agent and the satisfaction this response gives the active agent. That is, it must consider more than just the effectiveness of the action, as “the total value of an action for a subject is expressed by the sum of its consequences for the satisfaction of the subject that performs the action” (undated-d, 3). In the evaluation she performs before making a decision, the agent must take into account not only the direct effects deriving from the reactive agent’s response, as does traditional theory, but at least two other realities:

1) Operational knowledge, or what the active agent herself learns about the action, such as when she “learns how to use her ability to obtain [from the reactive agent] the reactions that give her satisfaction” (1993b, 3). Any analysis of an action is incomplete if it ignores this type of learning, that is, the impact the action has on efficiency. This type of learning is taken into account in sociology and economics, and is included in some decision theories (Argandoña 2003, 2005).

2) Evaluative knowledge, or “the ability to recognize other people’s inner states” (1993b, 2), that is, to assess the consistency of an action. An action is consistent if, after the first ‘transaction’ (action-reaction cycle), the other party is more motivated to engage in another cycle than was

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7 Pérez López often uses “value” to refer to the agent’s subjective appraisal of something that is important to her – in this case, the extrinsic, intrinsic and external effects of her action. “Any reality is a value for the subject insofar as possession of that reality perfects the subject in some respect” (1991c, 3).

8 We omit here the development of Pérez López’s decision theory, where some of his most important contributions are to be found. His premise is that there are three types of motives, which he calls extrinsic (those “aspects of reality that determine whether a decision maker obtains the satisfaction that comes from interactions”, that is, as a consequence of the extrinsic results for the agent); intrinsic (the “aspects of reality that determine what the decision maker learns from her interactions”, that is, those relating to the intrinsic results); and transcendent (the “aspects of reality that determine what the other people with whom the decision maker interacts learn from their interactions”, that is to say, the external results) (1993c, 55). Extrinsic motives are common to all decision theories. Intrinsic motives also are a regular feature (under the name of “intrinsic motivation”, for example ), though they tend to be more restricted in content than in Pérez López’s typology (Argandoña 2005). Transcendent motives also appear occasionally, in the form of altruism, “other-motivation”, etc., but again their content is very different. What Pérez López contributes in this field is an explanation of the relations between the three types of motives and the conditions under which motives become motivations, that is, inner “forces” that lead to action. He also clarifies the different roles of “spontaneous” and “rational” motivations. Above all, he presents the rules that govern relations between motivations and that determine the dynamic of effectiveness, efficiency and consistency of action. And in deducing these rules he seems to rely principally on ethics.

9 “The most important problem for any person is to learn to evaluate her actions ‘a priori’, so that her decisions become successively more right” (undated-g, 1).
the case previously under identical circumstances" (undated-f, 7). Any analysis of an action will be incomplete if this point is omitted. That is so for two reasons.

First, it may be that, as a consequence of the first interaction, the reactive agent becomes less interested in participating in further interactions, so that, although the first action was effective, there is no guarantee that subsequent actions will be. For example, if in order to obtain fruit from a tree the agent cuts the tree down, she will have denied herself the possibility of obtaining fruit from the tree in the future. Or if she abuses a customer's confidence in order to make a sale, she is unlikely to be able to make any more sales to that customer. So, although the first action was effective, it may have narrowed the set of feasible alternatives for future decisions: in other words, the action was inconsistent (undated-g, 1). And one of its results will be to diminish the effectiveness of some future actions.

The second reason is more complex, but also more interesting: depending on the active agent’s evaluation of the effects her action has on the reactive agent, the active agent herself will experience changes, and those changes may make it more difficult for her to satisfy other needs in the future. Let’s see why that is.

From what we have said so far it would seem to follow that there are many cases where there is no need to evaluate an action’s consistency. Specifically, this would seem to apply to actions involving an exchange with a non-personal environment (although the example of the fruit tree shows that, even here, actions can be inconsistent), or actions involving people with whom the active agent is not going to have any further interactions in the future. Pérez López emphasizes, however, that the important thing here is the value for the active agent of what the reactive agent learns from the interaction: “the extent to which the action helps to develop the ‘skills’ (moral habits) [of the active agent] that would help focus the decision so as to satisfy that need within the framework of the system’s other needs” (1981, 10).

The important thing, in other words, is the changes that take place in the active agent when she takes into account (or ignores) the effects that the action she is about to perform will have on the reactive agent, because those are the changes that explain how the agent actually improves. And so Pérez López brings ethics 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” (1977a, 5).

It is worth pointing out that the consequences of an action, in each of the three facets mentioned (effectiveness, efficiency and consistency), will occur whether the agent takes them into account in her decision or not. Naturally enough, the active agent will do her best, perhaps spontaneously, to take the extrinsic effects (effectiveness) of her action into account, and possibly also the intrinsic effects (efficiency); but only with a conscious and positive effort will she consider the external effects, relating to consistency. Specifically, “human actions affect

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10 What Pérez López calls “negative learning” is the learning that occurs when the active agent is encouraged to repeat an interaction, whereas the reactive agent is discouraged from doing so.

11 Pérez López refers to a decision that produces the desired results in terms of effectiveness as “apt” or “felicitous”, and to one that is consistent, as “right”, even if it is not “felicitous” (undated-f, 3).

12 Pérez López offered an alternative explanation when he said that, as a consequence of the changes in the effectiveness, efficiency and consistency of action, there was a change in the agent’s decision rule. By “decision rule” he means “the set of operations (...) by which an active agent chooses an action” (1991a, 28), as a result of what she has learned.
reality on its ethical plane [that of consistency], and this occurs independently of whether the immediate intentions or objectives of the action (…) happen to be on other planes” (1990a, 2). In this perspective, Pérez López’s is a positive theory that explains or predicts what will happen if a person makes inconsistent decisions, because, in the long run, the changes in consistency will affect the effectiveness and efficiency of the person’s actions.

Is it also a normative theory, though? Can it be used to make recommendations to the agent about how she should make her decisions so that they are effective, efficient and consistent? Apparently not, because “the vast majority of human actions cannot be analyzed on the assumption that people are capable of correctly evaluating in advance the results of their actions” in the abovementioned three dimensions (undated-f, 4), as “the real value of those actions can only ever be fully known ‘a posteriori’, that is, when the decision maker has already experienced all the effects the action has on her satisfaction” (undated-d, 4).

That is true, but Pérez López is not satisfied with this conclusion, because the agent may develop her ability to evaluate the consequences of her actions on all planes, principally the ethical one, by developing moral virtues. For the real problem of morality is not about making good decisions, but about acquiring the abilities (moral virtues) that will make it possible always to make good decisions (1993a, 8-9). And that brings us back to Pérez López’s ethical conception.

Ethics

In developing his action theory from ethics, Pérez López aims to achieve two objectives: 1) offer a dynamic decision theory that considers not only a decision’s direct impact (the dimension of effectiveness), but also its other effects (on the planes of efficiency and consistency); and 2) offer a solid base for ethics, one resting not on abstract rational principles or extrinsic results (consequences), but on the very reality of the decision process. We shall now consider this second objective.

I said earlier that the ethical conception that Pérez López developed is based on the one of Aristotle and Thomas Aquinas. But he had no desire to build an “ethical system” in which the first thing is to establish the “ultimate end” of the person (“happiness”, in the case of the Aristotelian-Thomistic system), and from that deduce the “rules of the game”, that is, the conditions that actions must meet in order to be compatible with that ultimate end. What he wanted to develop was the logical structure of ethical decision making” (1990b, 179). What concerned him was not the “perfect balance” (the achievement of the end of people or organizations), but “the nature [of the] path” they must follow in order to achieve it (1981, 16). Because people cannot know a priori the solution to the problem of “achieving happiness”, which depends on what they learn from their successive actions. Therefore, “human life is conceived not as the execution of a plan that leads to happiness, but as a process through which human beings may discover what happiness consists of” (1991a, 54).

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13 His ethical theory does not need a more solid foundation, but his analysis of the theory of action points to the inappropriateness of other ethical theories which do not serve to develop an adequate theory of action.

14 The “balance” mentioned here occupies an important place in Pérez López’s theory. It refers to the (operational and, above all, evaluative) learning processes that enable human beings to fully develop their ability to make right decisions.
And that is achieved by developing moral virtues.\textsuperscript{15} This preserves Pérez López from some of the criticisms leveled against the Aristotelian-Thomistic conception of happiness as the “natural end” of man: Pérez López does not need to postulate that end, and that gives his theory a more general validity (although he agreed that the achievement of happiness is the natural end of the life of man).

Pérez López’s point of view allows us to clarify what ethics is not. Ethics cannot be identified with any set of extra-economic values, which belong more to the field of psychology, sociology or even esthetics (1991c, 1).

Pérez López rejects also the idea –an idea popular among writers on business ethics– that ethics is a set of (social, legal or moral) criteria –brought in from outside the decision process– that must be taken into account in decision making in order for it to be “right” decision making (in economics, these criteria are usually presented as constraints on the decision process). “The problem of including ethical criteria in the evaluation of decisions not only has nothing in common with that of including additional criteria in any particular field, such as economics; merely to assume that these problems are in any way similar implies the impossibility of an ethics in the sense mentioned previously” (undated-f, 1).\textsuperscript{16} And, needless to say, for Pérez López the question of whether being ethical is “worthwhile” (from the point of view of effectiveness, or profit) is meaningless: ethics is not a management tool, but a criterion for evaluating reality (Cardona 2001).

**Ethics and human action: moral virtues**

To talk about ethics –in Pérez López as in Aristotle or Aquinas– is to talk about moral virtues, as all three are concerned with the development of people’s ability to attain their end. For Aristotle, that meant their ability to be happy; for Aquinas, their ability to know and love God; and for Pérez López, their ability to make right decisions that bring them closer to their end, and to build societies and organizations that can help them achieve it. “The mechanism that helps people to make decisions that further their own development is the mechanism classically known as moral virtues” (1993a, 7); “virtue (…) develops the ability to feel motivated by other people’s happiness” (1977a, 5).

By practicing moral virtues, a person learns to be ethical and to develop her ability to behave ethically.\textsuperscript{17} For Pérez López, to talk about ethics is to talk about developing the agent’s capacity for self-governance or self-control (1991c, 3). This capacity “is manifested in something as elementary as the fact that a person chooses an alternative that will bring her less economic benefit [a less effective alternative] than another, or various others, which she could have chosen instead” (1991b, 6). Pérez López presents decision making as the result of a set of

\textsuperscript{15} “Ethics does not seek to describe an ideal world; it seeks, above all, to discover the paths that lead to that ideal world” (1977a, 3).

\textsuperscript{16} This is particularly important for understanding what ethics is. “An ethics that does not make explicit the intrinsic reasons that lie behind ethical truths has renounced the power of human reason to explain those truths” (1981, 19).

\textsuperscript{17} In Pérez López’s theory, learning to be ethical involves developing rationality, while developing the ability to behave ethically involves developing virtuality. Rationality is “the decision maker’s ability to process her abstract data [abstract knowledge] correctly in order to evaluate the alternatives between which she must choose” (undated-a, 5); virtuality is “the ability to effectively want those alternatives” (undated-a, 5). Cardona (2001) identifies rationality with the virtue of “prudence” and refers to virtuality as “self-control.”
motivations, some spontaneous, others rational. Spontaneous motivations directly demand a decision, based on the expected extrinsic results (effectiveness), but also on intrinsic and external results. However, efficiency and consistency considerations may prompt the agent to make rational decisions, which resist the attractiveness of the spontaneous motivations.

Ethics bears on the inner transformation of human beings through their actions, and that is the object of the moral virtues. “To talk about ethics without mentioning the moral virtues is like talking about mechanics without mentioning gravity.” Virtues are operational habits that are acquired and developed through (deliberate, effortful) repetition of acts aimed at developing them. Pérez López emphasized that this process of acquiring and developing moral virtues takes place when the agent makes an effort to achieve what is good for another person—or rather: to achieve the other person’s moral excellence. “The moral virtues must therefore contain those habits that facilitate the performance of actions that are ‘good’ for others, precisely because they are ‘good’ for others (and not because of any other consequences of the action: intrinsic and extrinsic motives). By ‘good’ we mean: 1) the action satisfies the other person’s needs; 2) the action is intended to help as much as possible to ensure that learning takes place in the other system (to help it ‘do better what it can do’); 3) the action is intended to help as much as possible to ensure that the other’s moral virtues increase.”

Pérez López often insisted that ethics “is concerned only and exclusively with analyzing how human beings acquire or lose the capacity for self-control (...) It is concerned with what happens inside a decision maker when she decides. It pays no attention either to what happens to other people—which is a matter for sociology—or to what happens to the decision maker’s own preferences or appetites—which is a matter for economics.” In fact, ethics consists of the growth of moral virtue that takes place when the active agent performs an action that is better for the reactive agent; but this depends exclusively on the active agent’s motivation, not on what happens to the reactive agent. Therefore, an action may be ethically excellent because the active agent seeks the good of the other, even if the other does not exist, even if the active agent is wrong about what is good for the other, and even if the reactive agent’s reaction is the opposite of what the active agent expected and wanted.

Nor can ethics be identified with a way of behaving that considers the impact of actions on others: “mostly, when people talk about ethical values, all they mean is the sociological consequences—the consequences for others—that generally follow when an agent acts in

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18 Ethical knowledge is “knowledge of the processes whereby a person may improve (or destroy) herself with her own actions” (undated-f, 6, note 3). Ethics “is concerned with the development of the decision maker’s evaluative knowledge. It analyzes the consequences of decisions from the point of view of the changes (learning) they bring about in the decision maker’s rationality and virtuality” (1993b, 5).

19 Evaluative knowledge, possession of which determines a person’s ethical quality, is developed through "experiments" conducted by the agent to develop her rationality and virtuality (1993b, 4-5).

20 “Striving to help other people develop their virtues is the best policy to ensure one achieves the personal goal of developing one’s own virtues” (1991b, 11).

21 Performing actions because of the effects they have on the reactive agent is what Pérez López calls being moved by “transcendent motivation” (or, according to Torres 2001, intrinsic structural motivation). That is why he says that “ethics is the science that explains why and how transcendent motivation grows” in an agent (1993a, 5).

22 This emphasis on motivations, beyond any rational rules or consequences, is fundamental in Pérez López’s ethics (he must have taken it from Aquinas). In fact, “people are made in such a way that at bottom they are only satisfied by those realities that have their being in the world of interaction, of motives” (1993a, 6). And he gives the example of a gift, whose value depends more on the intention of the giver than on the material value of the thing given.
accordance with those values” (1991c, 2). Telling the truth may be an ethical act, and yet again it may not be if it is done out of calculation, strategy, fear, or even a desire to deceive. The ethical quality of an action does not lie in its external consequences, but in its effects on the agent. And those effects depend immediately on the agent’s motivation – or, in Aristotle and Aquinas’s theory, on his intention.

Ethics entails the ability to act seeking the good of others (and naturally also the agent’s own good), overcoming what Pérez López calls “sentimentalism” or “emotivism”, through which “the subject deadens her own ability to know and saps her strength to choose actions on any criterion other than how immediately attractive they are to her” (1977b, 11). Pérez López points out that actions often are described as ethical, just, honest, etc. on account of their observable consequences; “yet what determines the ethical value of an action is not the observable consequences of the action, but the quality of the action itself (whether it is just, honest, etc.)” (1991c, 2). “What makes an agent’s action just is not the fact that the consequences are just, but that the action is the fruit of the moral virtue of justice in that particular agent. And an action will be all the more just the more it makes that virtue grow in the agent, when the agent’s virtue ‘a posteriori’ is greater than it was ‘a priori’” (1991c, 3).

In any case, ethics is not concerned with the conditions an action “in general” must meet in order to be right, independently of attendant circumstances. That is because the quality of the decision will depend on the alternatives available, and the set of feasible alternatives is not independent of circumstances – for example, it is not independent of the degree of moral quality attained by the agent (1993b, 6). Ethics does not, therefore, consist of a set of rules that must be followed (rules that are doubtless necessary, even if only to prevent the moral deterioration of the person, by marking an ethical bottom line). Above all, it consists of the process of developing the agent’s moral quality, which is achieved when the agent acts seeking the greater good of others (transcendent motivation). But moral virtues do not grow unless the agent makes an effort to behave better than before. In some cases, the answer to the question “Can I do this?” will simply be no, if it is below the ethical bottom line; in all others cases, the answer will depend on whether there are better alternatives, which, in turn, will depend on the moral quality attained by the agent. An action that would be good for a person who has scarcely started along the path of moral progress may not be so good for another who is further along, if it entails lowering the standards of her decisions.

When an agent is capable of overcoming her spontaneous motivation and acting in accordance with her rational motivation (basically, serving the needs of others), she is practicing her self-control. She is behaving ethically. She is exercising her moral virtues and, as a result, she is developing them. In other words, she is improving her ethical quality and thus also her ability to make better decisions. Because “that capacity for self-control that ethics obsessively declares to be the most important thing a human being must achieve (...) is something she can achieve only insofar as she has that capacity developed in her already” through the acquisition and development of moral virtues (1991b, 7). That is why Pérez López says that “[moral] virtue facilitates making the right choice” (1981, 8), as it “changes our judgments and our feelings, making it more attractive for us to choose the right action” (1981, 8).23 “The moral virtues perfect human beings’ governance –or decision-making– mechanism” (1993a, 8).

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23 What the moral virtues facilitate is not “doing things”, but “wanting things”, that is, they help to develop “the quality of the motives of a person’s actions” (1993a, 7), “to develop in the subject the ability to evaluate through her feelings, to spontaneously internalize what may happen to other people” (1987a, 10-11).
He also presented this in another way, stating that “ethics analyzes the process by which people may develop their ability to perceive reality, the whole of the reality that affects them, not just the small part of reality that attracts them or that they happen to observe at a particular point in time” (1993a, 6). That whole reality includes, as we pointed out earlier, the external consequences of action (the reactive agent’s response to the active agent’s action), which are readily observable and more attractive reality; but it also includes what the agent herself learns and, above all, the consequences her actions have for others: “when a person stops taking other people's needs—other people's motives—into account, she is ignoring—not taking into account—the most fundamental aspect of reality” (1993a, 6).

This takes us back again to the moral virtues and, specifically, to love, which, for Pérez López, as for Thomas Aquinas, is the key to ethics. Immediately after the sentence quoted at the end of the previous paragraph, he adds: “That person would be making herself incapable of loving, and at the same time, incapable of receiving the love of others” (1993a, 6). “The ability to love is what allows a human being to move toward what is more valuable, even if, for the time being, it is less attractive (its attractiveness will become apparent once it has been achieved)” (1977b, 10). “Why be ethical? The simple answer is, in order to learn how to build fully satisfactory relationships with other people. Being ethical means learning to value people as people; it means learning to love” (1990b, 187).

“Every time a person freely chooses something that she knows is better, even though it is less attractive than another thing that is worse, she is training, building up the strength that will free her of any pressure that might deflect her” (1977b, 10). In a word, once fully developed, the moral virtues create a state in the agent “that makes all interactions possible” (1991a, 85). An ethical person will be capable of always choosing the best option: there will be no decisions that she cannot make on account of defects in her rationality or virtuality (1991a, 160). Pérez López’s action theory is thus an ethical, rather than an economic or psychological, theory.

**Organization theory**

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” (1993c, 13). Pérez López develops his organization theory directly from his action theory, without paying attention to problems such as aggregation, joint decision making or implementation of decisions, precisely because his aim, here too, is to establish the rules for the correct functioning of the person, because that is an absolutely necessary condition for the correct functioning of organizations: “organizations are there to help human beings develop their ethical capacity, and (...) it is on that ethical quality that the survival of organizations ultimately depends” (1981a, 17). And the reasons are the same as were given earlier: actions inside the company change the people who take part in them and

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24 Therefore, “an individual’s virtue increases when her actions tend to induce others to perform actions that lead them to acquire that virtue” (1977a, 5). Thanks to the moral virtues, “the subject is able to choose actions that are good for other people based on what she rationally knows (not only on what she immediately feels) to be good” (1987a, 11).

25 It was ethics that suggested to him the conditions that an action would have to meet, pointing the way to the development of his theory of action.

26 Not only was he fully aware of this; he insisted that it was justified: “an organization is simply a set of possible coordinations of human actions, that is, a set of possible joint action programs, whose reality is manifested through successive applications (operations)” (1981a, 12).
therefore also change the organization itself. Consequently, the immediate consequences of those actions will not coincide with their long-term results – and an organization must strive not only to achieve immediate results, but above all, to build the capacity to continue to obtain results in the future (and, of course, ensure that the results are the best possible).  

As a business school professor, Pérez López centers his organization theory on the company. The three functions (not ends) that he attributes to the company are: “1) Provide a service to people, helping them to satisfy certain material needs. 2) Help people work in tasks appropriate to their abilities, using those abilities appropriately and allowing the individual to realize her full potential to do things. 3) Help people find and give meaning to what they do, offering them an opportunity to deploy their ability to serve and be useful to others” (1981a, 21).

To fulfill these functions, the company must secure the cooperation of people who possess the human and material resources that the company needs. For that, it must monitor three “state variables”, similar to effectiveness, efficiency and consistency on the personal plane. This time, however, it will distinguish between these variables as applied to a person in the organization and as applied to the organization as a whole.

The first variable Pérez López again calls effectiveness: “the degree of effectiveness of an organization for any of its members is expressed by the value for that person of the material goods and services (...) she receives from the organization, less any economic sacrifices the organization may demand of her” (1981a, 15). The parallelism with the effectiveness of an agent’s action is immediately apparent, as in this case the reactive agent is the organization itself, and the active agent is motivated “by what she receives from the organization” (1993c, 17).

For the organization as a whole, effectiveness represents the difference between the economic results obtained by providing a service to people, thus satisfying their needs, and the resources employed, that is, the economic incentives provided to the members of the organization to secure their participation in production – roughly equivalent to the profit obtained (1993b, 2, note 1). “Effectiveness (...) expresses [the company’s] success in managing material resources” (1981a, 15) and is what best characterizes a business enterprise (1989, 110-111). Here, too, there is a parallelism with the effectiveness of individual action, although in this case the action is attributed to the organization as a whole. Effectiveness refers to the economic dimension of the company: that “the economic value of what is produced be greater than the economic value of what must be consumed in order to keep the process in operation” (1990a, 3-4) is an indispensable condition for the company’s survival.

The second state variable is attractiveness: “what is evaluated on this plane is the effort that individuals make to adapt their action to what the organization demands of them (...) The attractiveness of an organization for a particular individual measures the psychological cost incurred or the satisfaction obtained in adapting to what the organization asks of her” (1981a, 16), that is, the subject’s motivation “for what is done in the organization” (1993c, 27). It is the equivalent of the efficiency of personal action. The organization as a whole, if it

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27 Nevertheless, I suspect that Pérez López does not see his organization theory merely as an extension of his theory of individual action, but as the key to a definition or formal expression of some of the elements of his action theory. At least, that is how I understand these words of his, taken from what must be one of the last things he wrote: “I suspect that a historical individual is to be conceptualized as an organization, that is, as a set of interactions oriented to a specific end, and that it must be analyzed using all the analytical categories used to conceptualize organizations” (undated-e, 4-5).
is “efficient (...), is developing capabilities in individuals that make it less costly or more satisfying for them to do what the organization needs them to do” (1981a, 16). In other words, “it is equivalent to their contribution to the growth of the organization’s problem-solving capabilities” (1993b, 2, note 1). Attractiveness belongs to the sociological dimension of the company.

Lastly, for the people who work together in a company, “the degree of unity of an organization is what determines how motivated an individual is to use her ability to act when her action may satisfy the needs of others” (1981a, 16), similar to consistency in individual decisions. And for the organization as a whole, unity is “the organization’s contribution to the growth of mutual trust among its members” (1993b, 2, note 1) by explicitly espousing “certain values, with which it seeks to induce people to identify with the organization, thus improving the motives of their actions and educating them in that sense” (1993c, 28). Unity expresses the ethical dimension of the organization. The primary task of a manager is precisely to “maintain and grow the unity of the organization” (1991d, 49), which Pérez López calls the leadership function.

Effectiveness and ethics

“Companies are human organizations. They are groups of people who coordinate their actions to achieve economic results: the production and distribution of material goods. The purpose of this process is to satisfy organizational members’ needs as fully as possible, given the limited resources available” (1987a, 1). Profitability—which, as we have seen, has to do with the effectiveness of the production and distribution processes—is a necessary condition for a company’s long-term survival, but it is not the company’s purpose (1993c, 28-29). “The necessary and sufficient condition for an organization to really exist is that there be a group of people who are motivated to belong to that organization, with all that such belonging implies for them. The organization’s objectives must be oriented to conserving and increasing those motivations, as otherwise the organization would disintegrate” (1981a, 5).

28 The distinction between attractiveness for the person and attractiveness for the organization makes sense, because the agent may choose to use any psychological (not economic) satisfaction she derives for the benefit of the organization or not. Therefore, making work more attractive to the person may not lead to a more efficient organization if transcendent motivation (service to others) is missing.

29 Pérez López bases the active agent’s trust in the reactive agent on three variables: the technical or professional competency of the reactive agent (her ability to deliver the desired response to the active agent’s action); the power of the active agent (the trust that her action will produce the reactive agent’s response); and the attitude of the reactive agent (whether she is willing to act to satisfy the needs of the active agent) (undated-b, 1). This latter depends on the ethical quality of the reactive agent and is essentially the deeper reason for unity in the organization (Argandoña 2004).

30 And it is obvious that these three dimensions—economic, sociological and ethical—are simply three aspects of the same reality, aspects that we distinguish in our analysis but that are, in fact, one: that is to say, there is no such thing as an economic, sociological or ethical decision, but only a decision that has economic, sociological and ethical dimensions.

31 The other two tasks that Pérez López attributes to the manager are to execute tasks (strategic function, related to effectiveness) and to create conditions that will ensure sufficient individual satisfaction within the organization (executive function, related to attractiveness) (1981b, 1, 31ss.; 1993c).

32 “The characteristic feature of companies is [...] the pervasiveness [affecting everybody] and importance of economic motives” (1990a, 4).

33 From this he concludes that “the most immediate way to analyze the elements that must be present in any complete definition of a company’s objectives is to analyze the relationships between human motivations and the organization’s objectives” (1981a, 5). That is why his organization theory is developed immediately out of his theory of individual action.
Accordingly, every decision within the organization “must necessarily respect certain minimum levels of effectiveness and attractiveness” (1981a, 14; 1976, 6): any decision that meets these minimum requirements (that is, that does not give rise to costs in excess of revenues, and that is not unpleasant for the people who have to implement it) will be a feasible decision. But “once the choice has been made, a series of consequences will be felt throughout the organization, whether or not those consequences have been taken into account when deciding” (1981a, 13), and those consequences will change the attractiveness and, above all, the unity of the organization, either “strengthening (...) or weakening it to the point of annihilation” (1981a, 14).

Effectiveness is therefore a necessity in the company as an economic institution, but achieving it does not guarantee the organization’s survival or continuity. Survival depends on unity, as “the relationship between unity and effectiveness is the most basic property of organizations” (1981a, 11). Contrary to what the economic literature says on the subject, however, this is not an economic problem that can be resolved by designing a control system that provides incentives to use the organization’s operational capabilities to satisfy the needs of its members, because designing any such system “is absolutely impossible if organizational members learn –operationally or morally– as a result of their actions within the organization” (1987a, 12). “Achieving optimal economic values 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 unalterable by learning processes (...) could the optimal economic value be achieved through purely economic processes” (1987a, 12-13).

Moreover: it is not a problem that can be resolved, first, on the techno-economic plane, the plane of effectiveness, and then raised to the psychological plane, that of attractiveness (efficiency), and then to the ethical plane, that of unity (consistency), nor in inverse order. These are three interrelated realities; they are not independent, they cannot be reduced to one another, and they cannot be processed using a single common unit of measure (1990b, 180). This excludes the possibility of a formal approach, along the lines of maximizing a profit (or preference) function that includes variables representing the other two dimensions.

Pérez López points out that maximizing effectiveness (profit) in the “short term”, as a maximum conditional upon there being no learning (that is, as if the other variables were constant), is possible in theory, but meaningless, because learning will obviously occur, in which case the conditions for maximum effectiveness will no longer be met (1991a, 93). Nor is it possible ‘a

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34 “To survive, any organization must satisfy at least some of the motives that impel people to cooperate in the organization” (1993a, 3).
35 It is obvious that Pérez López is referring to the long-term effects of decisions that persistently and continually undermine the organization’s unity. At the same time, he points to the need, in any organization, for “a basic core of subjects without whose motivational quality the system would not be feasible” (undated-e, 5).
36 “What is most characteristic about companies is the decisive importance of effectiveness as a condition for their ability to operate” (1981a, 18). Pérez López gives no justifications for this statement such as are found in the economic literature (importance of opportunity costs, pressure of competition, etc.), perhaps because his point of view is normative: the company must serve society “through its specific function of wealth creation” (1981a, 4).
37 And he adds that this “highlights how the ultimate purpose of any organization is to increase its unity” (1981a, 11). This is equivalent to this other observation: “if we had to express the one and only objective of an institution, we would say that it is the future satisfaction of the people who make up that institution” (1993c, 29).
38 Similarly, “the market is merely the best set of indicators to determine whether an activity is economically efficient at any given time or not” (1991b, 4); it cannot guarantee that that activity will continue to be economically efficient in the future.
priori’ to “maximize in the long term”, anticipating all the learning that will take place, and thus also all the changes that will occur in the agents’ decision rules. Because although we know that the agents will learn, we do not know what they will learn, or how nor when their decision rules will change, etc. This also implies that the theoretical problem of choosing the optimal action plan is meaningless (1991a, 93), as the optimum will vary with circumstances (and, in particular, with the ethical quality of the agents). The rules of ethics only allow each member of the organization to develop her capabilities to carry out the optimal plan, so that if an agent acts accordingly, her actions will be consistent, and she will be in a position to contribute to the organization’s optimal plan, although that plan will only be possible if the other agent also acts in the same way (1991a, 99). If both act that way, each will help the other to act consistently, and the organization will gain in consistency and unity (1991a, 181). Hence, the contribution of ethics to the development of an organization consists essentially in “maximizing the set of feasible interactions” (1990b, 181): “the ethical value of an organization depends on the extent to which, through its very existence and operations, it is a help to the people who belong to it, in their efforts to develop their moral virtues” (1987a, 15). 39

If, “on the theoretical plane, the temptation is to try to reduce the reality of the company to the economic plane (…), from a practical point of view, the risk is that, when managing a company, the manager will tend to justify her decisions in terms of pure effectiveness” (1981a, 19-20), that is, profit maximization in the short term. That is so “even if the effectiveness achieved is the maximum achievable, at that particular moment, for all the members of the organization” (1981a, 20). And “even more serious is the fact that a manager following such a policy is bound to make inconsistent decisions, as she will tend to maximize her own effectiveness [her pay, for example], even at the expense of the effectiveness for other members of the organization” (1981a, 20). 40

Conclusions

Pérez López strove to build a theory of action (and, as we shall see later, a theory of the organization) that encompassed all the facets of reality that are relevant to a decision. And he did it with the help of ethics, because he considered that omitting ethics would leave any action theory hopelessly incomplete, as “the realities included on the ethical plane are realities that condition what happens on other more superficial levels that are more apparent” (1990a, 2). For him, the superiority of ethics was beyond question, because “human organizations must submit to the laws that govern human behavior” (1993a, 2), that is, ethics.

Thus, he set himself apart from the mainstream of action and organization theory, which, insofar as it neglects certain aspects that he considers important for decision making and the functioning of organizations, could be treated as a particular case of his ‘model’, as could the theories based on a reductive ethics (1995b, 1).

However, he also turned away from the mainstream for epistemological reasons. “The ability of a scientific model to predict observations is a sign of the validity of that model only in very special cases. As a methodological criterion, use of such a model will be contradictory in all cases in which observers and/or observed realities have the ability to obtain from their

39 It is “a help”, because it cannot develop the moral virtues of its members directly, as that will depend on their motivations (1987a, 15).

experience intense learning – learning that modifies their decision rules. That is why a human science aimed at scientifically predicting human decisions is meaningless. The deepest of all sciences (ethics) can only predict the consequences of decisions for the improvement of the actual decision maker" (1995b, 2, note 1).

“In analytical anthropology, a concept of science such as might be expressed in the formula ‘a set of known universal and necessary truths about reality (natural laws)’ can have no meaning. At most, science may aspire to be the best ‘systematic procedure for human beings to advance in their learning about what reality consists of’” (undated-d, 11). Therefore, “a large part of the meaning of the human sciences lies in formulating operational definitions that facilitate rational decision making and help orient subjects' actions toward the achievement of immediate goals that are right, that is, that do not prevent the achievement of the individual’s ultimate purpose, which is not known ‘a priori’” (undated-d, 12, note 6). What is proposed, then, is an amendment to the entire approach of the human sciences.

Both Pérez López’s decision theory and his organization theory are based on extreme assumptions of agent rationality, contrary to many recent theories, which emphasize structures, systems, routines, cultures and shared values. The explanations we have given help to understand his point of view, however. He does not aim to describe how decisions are made in organizations, but how they must be made in order to be at once effective, efficient and consistent. If ethics is the common thread in his model, this model must be based on strict assumptions of rationality and virtuality, assuming ethics is that condition of equilibrium of people and organizations to which we alluded at the beginning. There are, of course, other value-based ways to study action and the organization; but we saw earlier that Pérez López rejects them, as they rely on sociological, psychological or esthetic, but not ethical values, and so are not relevant to optimizing “in the long term” the dynamic decision processes of either individual agents or organizations.

In a way, Pérez López arrives at a certain division of labor in the human sciences, a division that presides over his model. Philosophical anthropology develops “our understanding about what a human being consists of and how it operates”; philosophical ethics is concerned with “what happens to that human being when it acts one way or another”; the sociology of organizations addresses “problems relating to interactions between human beings”; and then, once the above has been studied, “and only then, does it make sense to address issues concerning how organizations change the material environment to adapt it to the needs of the people who make up the organization”, which is the content of organizational economics (1989, 108). The role of economics is in no way secondary, however, as “in no other field of human action is it easier to investigate what criteria must be used to ensure that decisions are also humanly efficient, or the problems associated with the practical application of such criteria. Moreover, it is precisely in companies that the relationship between the two efficiencies [efficiency and consistency], and the difficult learning process that must be followed to make them one, is most easily observed” (1989, 111).

41 In any case, ethics regulates the other sciences, but it is not a substitute for them (1977a, 9).
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