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# Integrating Ethics into Action Theory and Organizational Theory

Antonio Argandoña

**ABSTRACT.** A serious attempt to integrate ethics in management was done by Professor Juan Antonio Pérez López (1934–1996). His thought represents a break with current scholarly thinking on these subjects. The purpose of this article is to explain some of the most significant aspects of his theories, relating basically to his recourse to ethics as what defines the characteristic behavior 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.

**KEY WORDS:** action, decision-making, management, ethics, Juan Antonio Pérez López, moral virtues, motivation, organization.

## Introduction<sup>1</sup>

Integrating economics with ethics is no easy task. The blame partly falls on economics when it is envisioned as a science free of value judgments that

excludes any role for ethics, which, it is assumed, is limited to subjective, unscientific judgments. However, ethics too is partly to blame, when it is presented as a set of widely diverging rules or principles imposed from the outside on economic agents in their decision-making process. For this reason, any attempts to build bridges between economics and ethics deserve to be welcomed with open arms, even if they are only partial attempts based on assumptions that are not universally shared.

The purpose of this study is to provide one of these attempts, indebted to Juan Antonio Pérez López, in a systematic way.<sup>2</sup> His work is little known, because it is mainly written in Spanish, and because it is not easy to read, primarily because of the compact nature of his ‘model’ or ‘theory’, and also for his premature death in a car accident before his theory was fully developed. Pérez López began his teaching career as a professor of accounting and control, but he also had profound training in philosophy and theology. When writing his doctoral dissertation at Harvard Business School (1970), his interest in control theory led him to organizational theory, and in order to understand the latter, to action theory, which he entered not through microeconomics, as was common at that time, but through ethics and the philosophical anthropology of Aristotle and Thomas Aquinas.

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, it was because in his research he was following a different path, one that he saw neither as an extension of the knowledge developed by other authors, nor as a departure from certain recent trends. Rather it was a radical change in the way we understand action and human organizations, and the sciences that studies them.

For the same reason, his writings do not contain references to many of the problems discussed in the

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*Antonio Argandoña is Professor of Economics and “la Caixa” Chair of Corporate Social Responsibility and Corporate Governance at IESE Business School, University of Navarra. A member of the Royal Academy of Economics and Finance, he has been the Honorary Treasurer of the European Business Ethics Network (EBEN), and founder and Secretary General of Ética, Economía y Dirección, the Spanish branch of EBEN. Author and editor of many books and articles on economic and business ethics, like People in Corporations: Ethical Responsibilities and Corporate Responsiveness (co-edited with Georges Enderle and Brenda Almond), La ética en la empresa and The Ethical Dimension of Financial Institutions and Markets.*

recent literature on, say, organization theory, such as the nature of the firm, contractual forms, resource specificity or executive pay. These problems interested him as a social scientist, but the objectives of his research were more basic: they focussed on the underlying conditions of action and human organizations. Pérez López's method was a 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).

In this article I shall try to explain what makes Pérez López's theories or models unique. I shall first give an overview of the main features of Pérez López's decision theory, which characteristically attributes a dominant role to ethics. Then I shall discuss Pérez López's ethical conception. This will lead us back to the relationship between ethics and human action, then to his organization theory. We shall then look at the relationship between effectiveness and ethics, before we end 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 for something (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'), (1) is aware that the need will recur, and (2) 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 (1981a, 9). In fact, the traditional theory is a particular case in Pérez López, one in which the agent has no other needs to satisfy, or in which the results of solving one problem do not affect the solving of others.

To solve a 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 (1981a, 10).

This implies that the choice of action must be based on three criteria, which Pérez López calls *effectiveness, efficiency, and consistency*.<sup>3</sup> To understand this, we must explain very briefly Pérez López's conception of human decision-making.

For Pérez López, human beings are solvers of real problems, a situation that manifests a need. To resolve the problem, 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:

- (1) the 'extrinsic' result or the reactive agent's response;
- (2) the 'intrinsic' result or 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
- (3) the 'external' result or the effects the action has on the reactive agent (for example, what the reactive agent learns as a result of the action) (1991a, 28).

For example, an active agent who strives to secure more or less permanent resources to live, seeks a job from which she will obtain reward and prestige (extrinsic results), learning and job satisfaction (intrinsic results), as well as results in the other people with whom she interacts with: executives, colleagues, customers, etc. (external results).<sup>4</sup> Related to these effects, Pérez López defines three key concepts:

- (1) The *effectiveness* of an action is "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.). In the example above, the efficacy of action would be measured, for example, in terms of the salary the agent receives in exchange for her work.

- (2) 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),<sup>5</sup> 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” (1981a, 10). This is important because it affects the agent’s ability to satisfy the kind of needs she has, or other similar needs, in the future. In the example above, this would be the agent’s development of knowledge and operational habits as a result of her job, as well as the psychological satisfaction derived from it.
- (3) 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. In the example above, the action would be consistent if it motivated her boss, colleagues, and customers to continue using the work of the active agent.

Now we are in a position to understand one of Pérez López’s crucial contributions to action theory:<sup>6</sup> for this theory to be satisfactory it cannot confine itself to the response of the reactive agent and the satisfaction it gives the active agent, that is, the effectiveness of the action. In the evaluation carried out 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*—what the active agent herself learns about the action. Any analysis of an action is incomplete if it ignores this type of learning, that is, the impact the action has on efficiency.<sup>7</sup>
- (2) *Evaluative knowledge*—“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 part is more motivated to engage in a new cycle than she was previously. Any analysis of an action will be incomplete if this point is omitted. That is so for two reasons:
  - (a) 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.<sup>8</sup> For example, if in order to obtain fruits 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 with that customer. So, although the first action was effective, it may have narrowed the set of feasible alternatives for future decisions.
  - (b) 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 us see why that is so.

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:

for instance, buying a souvenir during a trip which is likely never to repeat itself. Pérez López emphasizes, however, that the important thing here is the value that the active agent passes onto the learning of the reactive agent: “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” (1981a, 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.<sup>9</sup> 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 his 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 (and therefore with ethics). Specifically, “human actions affect 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 theory 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. Returning to the example of purchasing a souvenir from a trip, what Pérez López considered most relevant in the decision-making process of the salesperson who tricked the tourist is not the fact that the tourist, when realizing she has been cheated, decides to never go back to that shop, or that she will be more wary in future purchases, and neither does he mean that all tourists introduce into their decision-making the not-negligible

probability that they might be tricked (which will affect their decisions whether or not to purchase many other products) (Akerlof, 1970), rather the fact that the salesperson ‘learns’ to cheat. And this is particularly important in organization theory, as we shall see below.

Is this 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 can be 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).

This 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.<sup>10</sup> We shall now consider this second objective.

I said earlier that the ethical conception that Pérez López developed is based on the conception 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): “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). And that is achieved by developing moral virtues.

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 aesthetics (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.<sup>11</sup> “Not only does the problem of including ethical criteria in the evaluation of decisions have nothing in common with that of including additional criteria in any particular field, such as economics, but 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).<sup>12</sup> 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.

Pérez López’s conception of ethics differs from that of other authors in yet another aspect: ethics is not concerned with the condition that an action should meet ‘in general’ to be proper, regardless of the circumstances at hand, because the quality of the decision will depend on the existing alternatives, and the set of feasible alternatives is not independent of the circumstances, such as the degree of moral quality reached by the agent (1993b, 6). Ethics, then, does not consist of a set of rules that must be met (rules that Pérez López nevertheless regards as necessary, though even if merely to prevent an individual’s moral deterioration), rather especially of the process of developing the agent’s moral quality, which takes place when she acts seeking the best good for others, because moral virtues do not grow if there is no effort to behave better than before. In

manuals and courses on business ethics, the question is often asked, “Can I do this?” The answer, according to Pérez López, will in some cases simply be no, if it falls beneath the ethical minimums. In other cases, the answer will depend on the existence of better alternatives, which, in turn, will depend on the moral quality achieved by the agent: the action that would be good by one person who has barely begun her process of moral progress may be inadequate for another who is further along this pathway, if it means lowering the standards of her decision.

### **Ethics and human action: moral virtues**

To talk about ethics in Pérez López is to talk about moral virtues: “the mechanism that helps people to make decisions that further their own development is the mechanism classically known as moral virtues” (1993a, 7). By practicing moral virtues, a person learns to be ethical and to develop her ability to behave ethically. Pérez López presents decision making as the result of a set of motivations, some spontaneous, others rational. Spontaneous motivations directly demand a decision, based on the expected extrinsic results (effectiveness), but also 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. Moral virtues are responsible for developing the person’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).

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” (1991c, 3). 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 to ‘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” (1986, 17).

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” (1991b, 7). 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.<sup>13</sup>

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 (1986, 21).

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 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.<sup>14</sup> And those effects depend immediately on the agent’s motivation – or, in Aristotle and Aquinas’s theory, on her 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 slows down his ability to know and undermines his strength to choose actions on any criterion other than how immediately attractive they are to her” (1977b, 11).

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 develops them. In other words, she is improving her ethical quality and thus also her ability to make better decisions. “Moral virtues signify the fine-tuning of human beings’ governing mechanism – of the decision-making mechanism” (1993a, 8). What moral virtues facilitate is not ‘doing things’ but ‘wanting things’, learning to desire what is best for us, that is, developing “the quality of the motives behind actions” (1993a, 7).<sup>15</sup>

This takes us back to love, which, for Pérez López, is the key to ethics. “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 he cannot make on account of defects in his rationality or his 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,<sup>16</sup> 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 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.

The first one Pérez López again calls ‘effectiveness’, the same name he gave to the first variable in the individual’s state. For the organization as a whole, effectiveness represents the difference between the economic results obtained by providing a service to people (the consumers) 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): it 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’: being attractive is to “develop 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, 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).<sup>17</sup> Unity expresses the ethical dimension of the organization.<sup>18</sup> 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.<sup>19</sup>

### 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” (1987, 1). Profitability – which, as we have seen, has to do with effectiveness – 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).

Accordingly, every decision within the organization “must necessarily respect certain minimum levels of effectiveness and attractiveness” (1981a, 14; 1976, 6): “in order to survive, any organization must fulfill at least some of the requirements which motivate people’s contribution to the organization” (1993a, 3). 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).<sup>20</sup>

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).<sup>21</sup> 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” (1987, 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 could not be altered by learning processes (...) could the optimal economic value be achieved through purely economic processes” (1987, 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). 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 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. Since 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 the 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” (1987, 15).<sup>22</sup>

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).<sup>23</sup>

## Conclusions

Pérez López strove to build a theory of action (and 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 (1995, 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 in only very special cases. As a methodological criterion, use of such a model will be contradictory in all cases in which observers (the active agent) and/or observed realities [the reactive agent] have the ability to obtain from their experience intense learning – learning that modifies their decision rules. That is why a human science aimed at scientifically predicting human decisions is meaningless. Only the most profound of all sciences (ethics) can predict the consequences of decisions for the improvement of the actual decision maker” (1995, 2, note 1).

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.

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).<sup>24</sup>

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).

## Notes

<sup>1</sup> This study is part of the work of the “la Caixa” Chair of Corporate Social Responsibility and Corporate Governance, in collaboration with IESE’s Center for Business in Society. A previous version of this article was presented to the 14th International Symposium on Ethics,

Business and Society that took place at IESE Business School, in Barcelona, on May 18–19 2006, entitled “Ethics in economics and in organizations: Can they be fully integrated?”. I am grateful to professors Nuria Chinchilla, Domènec Melé, Max Torres and Josep M. Rosanas for their comments on an earlier version of this article.

<sup>2</sup> Juan Antonio Pérez López was born in Salamanca (Spain) in 1934; he studied to be an insurance actuary, and in 1961 he joined the faculty of IESE, the University of Navarra’s business school, as a professor first of accounting and financial control, and later of organizational behavior. His doctoral dissertation at Harvard Business School (1970) (Pérez López, 1974) reflected his interest in the subjects discussed in this article. He was Dean of IESE between 1978 and 1984. He died in a car accident in June 1996.

<sup>3</sup> Occasionally, for reasons of simplicity, he limited them to two: effectiveness and consistency. For example, (1990b, 180ss.).

<sup>4</sup> Unlike agency theory, Pérez López’s action theory is symmetrical: the problem can (and must) be analyzed from the standpoint of both the principal and the agent.

<sup>5</sup> 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).

<sup>6</sup> 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 his 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 (e.g., in Frey, 1999; *cfr.* 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 and, above all, presents the rules that govern relations between motivations and determine the dynamic of effectiveness, efficiency and consistency of action.

<sup>7</sup> This type of learning is taken into account in sociology and economics, and is included in some decision theories (*cfr.* Argandoña, 2003, 2005).

<sup>8</sup> For Pérez López, ‘negative learning’ occurs when the active agent is incentivized into repeating an action, whereas the reactive agent is disincentivized from carrying out the action (or vice versa).

<sup>9</sup> 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).

<sup>10</sup> His ethics theory does not need a more solid foundation, but his analysis of the theory of action points to the inappropriateness of other theories, that do not serve to develop an adequate theory of action.

<sup>11</sup> In economics, these criteria are usually presented as constraints on the decision process.

<sup>12</sup> 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” (1981a, 19).

<sup>13</sup> 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.

<sup>14</sup> 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).

<sup>15</sup> 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 happens 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 that readily observable and more attractive reality; but it also includes what the agent himself 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).

<sup>16</sup> 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).

<sup>17</sup> 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).

<sup>18</sup> And 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.

<sup>19</sup> 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, 31ss.; 1993c).

<sup>20</sup> 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).

<sup>21</sup> 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).

<sup>22</sup> It is 'a help', because it cannot develop the moral virtues of its members directly, as that will depend on their motivations (1987, 15).

<sup>23</sup> The debate over stock options in executive pay illustrates this risk very clearly. cf. Argandoña (2000).

<sup>24</sup> In any case, ethics regulates the other sciences, but it is not a substitute for them (1977a, 9).

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IESE Business School,  
University of Navarra,  
Av. Pearson, 21, 08034, Barcelona,  
Spain  
E-mail: argandona@iese.edu