A CRITIQUE OF "IS BUSINESS BLUFFING ETHICAL?"

by

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A Critique of "Is Business Bluffing Ethical?"

Over thirty years ago, an article entitled "Is Business Bluffing Ethical?" by Albert Z. Carr (1968) was published in the *Harvard Business Review*. It argues that business ethics essentially are the ethics of a game, particularly poker, and that they differ significantly from the ethics of private life. Game ethics, maintains Carr, include such practices as bluffing and not telling the whole truth, which the ethics of private life would consider to be immoral. Since the time of its appearance, the article has been reprinted in many readings books on business ethics and has become a classic on the subject. Carr even expanded the game analogy into a book (1971).

The present study, which is constructed in the form of philosophical argument, revisits the issues raised in Carr's article and challenges his fundamental premises. The first premise to be challenged is Carr's exclusion of other ethical theories that pertain to the "ethics of private life"; when only one theory—namely, the Judeo-Christian religious theory of altruism—is considered synonymous with ethics, a whole continuum of other theories that might account for business practice is ignored. The second premise to be challenged is the notion that business is a game, but the present writer will argue that business is not a game and indeed that the game analogy Carr uses leads him to defend some truly unsavory practices, such as cowardice. Finally, the third premise to be challenged is Carr's assumption that deception is inherent in the art of negotiation; however, when negotiation is properly understood the concept and activity of bluffing cease entirely to be relevant to business behavior.

The Continuum of Ethical Theories

Two errors are frequently committed in discussions of business ethics today. One is to assume that only one ethical theory exists by which to evaluate business practice. The other is to offer no ethical theory at all, only a series of concrete cases in which discussants, especially young, ignorant students, are expected to make ethical decisions. Carr's view that religious ethics are synonymous with ethical theory exhibits the former error; Carr's approach to business ethics has the effect—to use a game analogy—of stacking the decks against readers by limiting them to a cynical view of the relationship between business practice and ethics.

In philosophy, however, a wide range of ethical theory exists. At the risk of oversimplification, this range can be understood as existing on a continuum of how one values one's own life and relates to oneself and others. The continuum extends from a life of self-sacrifice, in which ethical behavior consists of sacrificing oneself to others, to a life of sacrificing others to oneself. Broadly speaking, ethical theory can be divided into altruism and egoism, the former being an other-oriented theory, the latter self-oriented. Altruism is the theory that one should always value others more highly than oneself. Egoism, on the other hand, is the theory that one should always value oneself as the highest value.

Within each of these two broad theories, two classifications can be differentiated. Under altruism, exhibiting the greatest degree of self-sacrifice, religious ethics is the theory that one's moral duty is to follow God's commandments by helping others without regard for personal consequence. The most extreme form of this is the asceticism of medieval saints who practiced almost total self-denial, sacrificing themselves for the sake of sacrifice. The less extreme form is Jesus' prescription to "love thy neighbor," which is closer to Carr's "ethics of private life" and typical present-day religious ethics. The concern here is for others and on self-sacrificial behavior but without the self-annihilation of the medieval saints.

A second classification of altruism—with a more moderate emphasis on sacrifice—is the ethics of utilitarianism (Mill 1957). This view holds that one should act to benefit the greatest happiness of the greatest number. The emphasis is still on sacrificing the self but only for the sake of the majority. If one happens to be a member of the majority, then that person will not be sacrificing him- or herself to any great extent. Rather than being an ethics requiring the sacrifice of everyone, as is the case with religious ethics, utilitarianism requires only the sacrifice of a minority of people. Many business persons, although not Carr, tend to profess the utilitarian ethics because profit-pursuing businesses act in such a way as to benefit the greatest number of people in society.

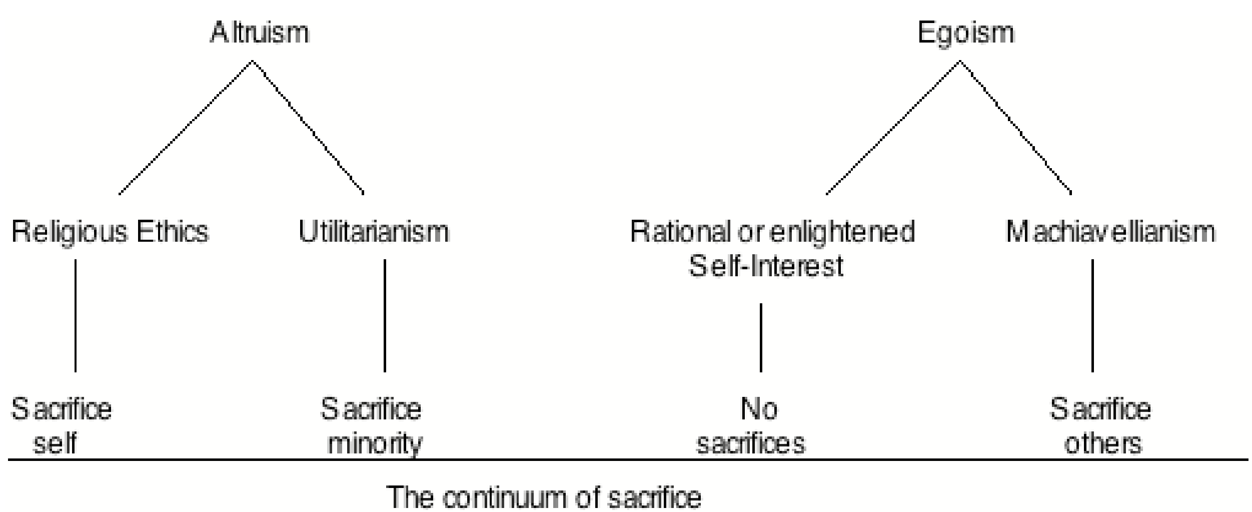
Under egoism, two further classifications can be distinguished. Rational or enlightened egoism holds that one should act to benefit oneself, neither sacrificing others to oneself nor oneself to others (Rand 1964). In other words, rational or enlightened egoism advocates the elimination of sacrifices from human relationships. People should relate to one another, according to this view, strictly on a trading basis, trading value for value in all endeavors. As a result, rational egoism has been described by one writer as the proper moral foundation of capitalism (Rand 1966).

The second classification under egoism can be described as Machiavellianism, named after the author of *The Prince* (Machiavelli 1964). The Machiavellian has no qualms about sacrificing others to him- or herself. This is the extreme form of egoism most would describe as having no scruples whatsoever. What the Machiavellian has no scruples about is sacrificing others. In real life, it is difficult to detect who is actually practicing Machiavellianism, because

Machiavellians typically prefer to hide their ethical principles behind the guise of the other three theories that have been discussed above. Indeed many of these people hide behind religious ethics and practice Machiavellianism. (Some might say this theory should be described as Nietzschean, named after the German philosopher Friedrich Nietzsche, but this is a misreading of Nietszche's *übermensche*. See Kaufmann 1968.)

The four theories can be displayed on a continuum of sacrifice as indicated in Figure 1 below:

Figure 1



These four theories also exhibit four opposing views of honesty, a critical issue in Carr's discussion of bluffing and game strategy. The religious view says, "thou shalt not lie"—period; personal consequences are not relevant to truth-telling. The utilitarian view in effect says, "it's okay to lie for a good cause"—to promote the happiness of the majority; more than one head of a large corporation has justified covert payments to foreign government officials on grounds that the payments ultimately supported the jobs and well-being of large numbers of Americans.

The view of rational egoism says that one should never lie to obtain a positive value, meaning that it is okay to lie in self-defense when physical force is being threatened or when privacy is about to be invaded; personal consequence is relevant when determining whether or not to tell the truth, but clearly delineated guidelines restrict one's behavior (meaning that lying on a resumé or in a job interview would not be honest). Finally, the Machiavellian view says that lying is okay whenever it suits one's purpose for personal gain; no guidelines restrict the behavior as in the case of rational egoism.

The range of ethical theories as presented above, along with their respective views of truth-telling, widens the perspective with which to view business practice. The challenge is to determine which theory correctly corresponds to the facts of human nature and the requirements of peaceful and prosperous social cooperation. Such a task, unfortunately, cannot be undertaken in the present essay. Suffice it to say that a one-theory approach, as in Carr's article, closes the door to other interpretations.

The Game Analogy

A consequence of Carr's one-theory approach to business ethics is that he feels compelled to justify business behavior on some other grounds than religious ethics, since self-interested money-making activity certainly cannot be justified by a moral code of self-sacrifice. One student, fresh from a business ethics course at his university, reported the essence of the one-theory approach toward business ethics: "Business can do no good, except give its money away." Carr's solution to defending business activity is to say that business is just a game. "The essential point," he says, "is that the ethics of business are game ethics, different from the ethics of religion." Thus, Carr splits the personality of the business person by saying that he or she must have one kind of character at work and another kind away from work.

Analogies and metaphors, however, do not constitute theories, and business is not a game. The Austrian economist Ludwig von Mises (1966) has argued as follows:

> There is not the slightest analogy between playing games and the conduct of business within a market society. The card player wins money by outsmarting his antagonist. The businessman makes money by supplying customers with goods they want to acquire. There may exist an analogy between the strategy of a card player and that of a bluffer. . . . [but] he who interprets the conduct of business as trickery is on the wrong path (p. 116).

The goal of business is to earn a profit through customer satisfaction, not to defeat a competitor or to trick a customer into buying a product he or she does not need or want. Competition is not combat; it is a form of social cooperation, the purpose of which is to enable entrepreneurs to find their place in the division of labor. Those who are more successful at satisfying customers will earn more money than those who are less successful. Some entrepreneurs will discover that they are not qualified to be entrepreneurs and will go out of business. The focus of business managers—the mental challenge they must face—is not on beating other competitors but on meeting the needs and wants of consumers. Being better than the competition is secondary (Mises 1966, pp. 117, 275).

Carr points out correctly that the purpose of a game is to defeat the opponent by working within the confines of clearly defined rules, but he extends the analogy to business by asserting that the rules of the "business game" are the "laws of the land," that is, the laws that govern the country in which a business operates. This is the view that whatever is legal defines and shapes the ethical, perhaps best described by the line: "if it's legal, then it's moral." One executive operating on this premise, quoted by Carr in his article, even defends industrial espionage as ethical (ignoring the fact that such activity is of dubious legality) (Carr 1968, p. 146). Carr concludes that such executives are simply acting on a game ethics where the rules of the game are defined by the law.

Thus, illustrating this point with one of Carr's examples, a sales representative gives money to a client's political candidate even though the representative does not support the candidate. Why? The client's sales constitute almost half of the representative's business. Besides, the action is legal and anything that is legal is all part of the strategy required to win the business game (Carr 1968, p. 152). However, the present writer submits, the sales representative's fear of losing the client's business, by not giving money to the his or her political candidate, is gross cowardice; it is the kind of behavior that leads critics to give sales representatives the offensive—but sometimes accurate—epithet "prostitute." Integrity is not a character trait found among some sales representatives, yet cowardice is precisely what Carr is defending in the name of "game ethics."

The premise, "If it's legal, then it's moral," ignores the fact that what is legal can be immoral and what is immoral is not necessarily illegal. The premise is especially dangerous and vicious if one recalls Nazi Germany wherein millions of Jews were *legally* sent to their deaths; such actions can hardly be described as moral, yet the premise of Carr's article would endorse such behavior. On the other hand, adultery is immoral according to most ethical theories, because of the deception involved, but it is not illegal. (It is grounds for divorce, but the dispute is private, between husband and wife). Law and ethics are two separate domains that overlap one another but are not identical. Laws can be unethical and unethical behavior can be legal. This means that ethical behavior in some societies can be declared to be illegal. The challenge of political science and philosophy is to establish laws that are ethical.

From a practical marketing perspective, the sales representative in Carr's example should not have had half of his business coming from one client. There is no marketing principle that says a sales representative should put all of his or her eggs in one basket (or half of them). The sales representative should never have put himself in the position of having to fear losing half of his business over the irrationality of one client. And it would take an extremely irrational client to withdraw business from a sales representative who refuses to sell his soul to the devil (to use a different but apt analogy). The strategy that this sales representative should have adopted was one of client diversification, thereby not remotely putting himself in the position of having to prostitute himself according to some nebulous "game ethics."

Economist Mises states, "The characteristic feature of games is the antagonism of two or more players or groups of players. The characteristic feature of business within a society . . . is concord in the endeavors of its members. . . . Competitors aim at excellence and preeminence in accomplishments within a system of mutual cooperation" (1966, pp. 116-17). Had the sales representative been aiming at "excellence and preeminence" in relation to all of his customers, rather than playing an antagonistic game, he would not have felt compelled to give in to the imagined—and it probably was only imagined—irrationality of his large client. Even if the client were irrational and would have threatened to take away all of his or her business from the sales representative, excellence and preeminence in business accomplishment should give one the courage to walk away from such combative and irrational customers.

Negotiation and Honesty

"Most executives," states Carr, "from time to time are almost compelled, in the interests of their companies or themselves, to practice some form of deception . . . . By conscious misstatements, concealment of pertinent facts, or exaggeration—in short, by bluffing—they seek to persuade others to agree with them." The executive who does not bluff, continues Carr, "is ignoring opportunities permitted under the rules and is at a heavy disadvantage in his business dealings" (1968, p. 144). It is from these statements that Carr goes on to elaborate his theory of game ethics. However, does business negotiation involve bluffing and deception?

Negotiation is the art of reaching mutual agreement and ultimate satisfaction of each negotiant's needs through discussion. This does not mean that all of each negotiant's needs are met, nor does it mean that none are. A classic work on the art of negotiating by Gerard I. Nierenberg (1968)—published ironically in the same year as Carr's article—states the following: "In a successful negotiation, *everybody wins*" (p. 23, emphasis in original). Negotiation "is not a game—and it is not war. Its goal is *not* a dead competitor. A negotiator ignores this point at his own peril. . . ." The purpose of negotiation is "to achieve *agreement*, not total victory. Both parties must feel that they have gained something. Even if one side has had to give up a great deal, the overall picture is one of gain" (p. 24, emphasis in original). To put it in colloquial business parlance, negotiation should conclude with a "win-win" deal.

Bluffing and deception are irrelevant and actually harmful to successful negotiation. To illustrate, consider one of the simpler negotiations, the goal of reaching a mutually agreed upon price for some product. Neither buyer nor seller reveals to the other his or her maximum bidding or minimum asking price. Neither has an obligation to do so because each enjoys a right to privacy. The purpose of discussion in a negotiation on price is to find the point at which buyer's and seller's respective ability and willingness to exchange the product meet. The buyer may have a lot of money to spend or not, and he or she may badly want the product or may be willing to walk away from it. The seller, on the other hand, may be desperate for money or not, and he or she may be sentimentally attached to the product or not. These are the issues that each party is trying to settle in mutually agreeable fashion.

Bring in bluff and bluster, such as the wealthy buyer who says, “That is my top offer—it is an insult to pay more,” and intimidation and a combative desire to defeat the seller become the objective of negotiation, not need satisfaction. Bring in a bluffing seller, who says, “You won’t find a lower price and you don’t have much time left”—when in fact both statements are not true, and you have a victimized buyer who does not give his business again to the seller. Indeed, it is notorious in the marketing field that bluffing, deceiving sales representatives must constantly prospect for new business. On the other hand, honest, straightforward sales representatives who aim to satisfy the needs of their customers, not take advantage of them, soon find most of their business coming from the referrals of satisfied customers, not from “cold calling.”

The reason Carr thinks bluffing and deception are necessary in negotiation is that negotiants do not reveal to each other either their maximum or minimum terms of settlement. Relative bargaining power, i.e., the ability and willingness of buyer to buy relative to the ability and willingness of seller to sell, determines where the terms will meet. Thus, eventually through discussion enough of each other’s position is revealed to permit a settlement. When bluffing and deception, however, are introduced into the discussion, defeat, not agreement, becomes the goal.

Carr’s conception of honesty must be commented upon. One of the effects of the religious theory of ethics is a rigid view of honesty, namely “do not lie regardless of personal consequence.” Thus, not revealing one’s position in a negotiation can be and often is interpreted as a dishonesty. This is implicit in Carr’s discussion of bluffing: negotiation in business cannot take place without dishonesty. A seller, for example, asks a buyer how much he or she is willing to pay for the product; any answer other than the maximum amount, according to Carr and his theory of ethics, would be dishonest.

But this is perverse. The seller has no right to know the buyer's maximum bidding price. The seller, who through bluffing tactics is trying to intimidate the buyer into revealing his or her maximum position, is violating the buyer's right to privacy. According to the rational or enlightened egoist view of honesty, which holds that it is okay to lie in self-defense, the buyer has every right to respond with any statement that prevents the seller from discovering his or her maximum bidding price. The buyer is totally honest even though he or she actually may be lying; the seller, on the other hand, is the dishonest one, by using a bluffing pretense to intimidate out of the buyer what the seller is not entitled to.

A Pretense at Being Ethical?

One final comment must be made about the double-entendre in the title of Carr's article. It is the one-theory approach to business ethics that leads to the cynical retort: "Business ethics; isn't that a contradiction in terms?" Carr simply plays into this cynicism by citing the codes of ethics that many businesses have adopted. He points out that some companies have adopted these codes as part of a strategy to stave off governmental regulation. Thus, he concludes that such companies are merely bluffing at being ethical (Carr 1968, p. 148). After all, according to Carr, ethics (of the religious kind) do not apply to business; the action of such companies has to be pretense.

The rational or enlightened egoist theory, however, would say that a strategy to fend off governmental regulation is quite ethical, because the infringement of the entrepreneur's rights by the government is in fact what is unethical. The government initiates physical force to regulate business. The entrepreneur protects his or her business from such encroachments by enacting a code of ethics. There is no bluff in such action, only self-defensive honesty.

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