

## **Truthfulness and business**

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**Abstract.** According to a common assumption, truthfulness cannot have an intrinsic value in business. Instead, it is considered only instrumentally valuable for business, because it contributes to successful trust-building. Some authors deny truthfulness even this limited role by claiming that truth-telling is not an essential part of business, which is a *sui generis* practice like poker. In this article, I argue that truthfulness has indeed an intrinsic value in business and identify the conceptual confusions underlying the opposite view. My account of truthfulness as a virtue shows that truthfulness is both valuable for its own sake and instrumental to further valuable goals. It helps pinpoint the implicit contradiction in claiming that truthfulness has an instrumental value only. I then challenge the reasons for considering business exempt from the constraints of truthfulness and elaborate on the analogy between game and business, which in fact supports instead of undermining my claim that business is a truthful practice. Finally, I illustrate my argument with a case study of the current crisis of trust faced by the pharmaceutical industry.

### ***Introduction***

The main ambition of this article is to show that truthfulness has an intrinsic value in business. By this I mean that truthfulness should be primarily valued for its own sake instead of being appreciated only instrumentally, i.e. because it furthers other business objectives.<sup>1</sup> In support of my claim that truthfulness in business is intrinsically valuable, I will propose a general account of truthfulness as a virtue and demonstrate its validity in the world of business. In doing this, I will challenge the prevailing assumptions, according to which truthfulness has either only an instrumental value for business, or indeed no value at all.

My argument divides into five sections. The first sets up the scene by spelling out the key presuppositions that motivate the contested hypothesis, i.e. truthfulness cannot have an intrinsic value in business. The second section identifies an internal contradiction that invalidates the claim

that truthfulness can only have an instrumental value. Furthermore, it clears up the conceptual confusion in deriving the intrinsic value of truthfulness from its instrumental value. In the third section, I offer an analysis of truthfulness as a virtue as opposed to skill. It clarifies the specificity of truthfulness, which is both valuable for its own sake and instrumental for the advancement of further valuable goals. The penultimate section argues that business makes no exception to truthful practices. In doing so, it carefully examines the classical analogy between game and business. Instead of exempting businesses from the requirement to be truthful, the analogy actually implies that they can be profoundly untruthful without even committing a fraud in the ordinary sense. Seeking profits at the expense of their internal standards of excellence turns out to be the principal way for businesses to become untruthful. In the fifth and last section, I further specify the previous point with a case study, the object of which is the current crisis of trust in the pharmaceutical industry.

***Contested hypothesis: Truthfulness is only valuable to business either instrumentally, or accidentally***

Before addressing the two parts of the hypothesis above, I shall clarify what I mean by truthfulness, i.e. the stable disposition to not only tell the truth, but to do so in a responsible, relevant, and unambiguous way. This working definition of truthfulness is not supposed to be exhaustive. Yet, it has the merit of ruling out various deceptive practices, which differ from telling lies. For instance, one can be untruthful by telling the truth selectively or out-of-context, by exaggerating details or omitting germane information. Furthermore, untruthfulness does not require any intention to mislead – carelessness about what one comes to believe and communicates to the others often suffices.

The idea that truthfulness as specified above is beneficial to business has a strong intuitive appeal. If customers have been cheated by the local bakery, they can simply start buying their bread from the local supermarket. Business fraud in general can be extremely expensive because of legal suits and negative publicity. In addition to that, it provides customers with a motive to cheat, which leads to higher security costs for the business (Tian and Keep, 2002). Being perceived as untruthful

certainly reduces the chances of a company staying in business, because suppliers, partners, employees, and customers would no longer trust it and, therefore, do their best to switch to a competitor.

This argument for the instrumental value of truthfulness in business relates to a major theme in management and organisational theory, that of trust-building (Kramer and Tylor, 1996). Truthfulness is thus conceived as an important strategy that will ensure trust, which translates into reduced transaction costs and opportunities for innovation and expansion (Stancich, 2003).

At a more general level, if businesspeople are unable to trust each other's word, business becomes impossible (Luhman, 1979; Gambetta, 1988). Legal enforcement against business fraud can only make sense, if most business transactions are conducted without attempt at deception (Arrow, 1984).

However, these strategic incentives for truthfulness in business can easily be overridden by others, which point towards untruthfulness as being more profitable, e.g. withdrawing vital information from the stock market (Keep, 2003). Moreover, commerce, with its "limited species of honesty" is usually considered an improper place for truthfulness (Dewey and Tufts, 1908). For instance, bargaining can be defined as a practice of mutual deceit, which is not morally objectionable because both parties know the rules and play by them voluntarily (Bok, 1978, p.131). In this context, being truthful is manifestly amateurish. It breaks the rules of bargaining and should be reprimanded.

Not only isolated business practices such as bargaining, but business itself can be conceived as irrelevant to concerns for truthfulness. This hypothesis finds support in the classical poker analogy (Carr, 1968). It states that truth-telling in business is similar to truth-telling in poker. Thus, truthfulness is not essential to either practice, even as a tool.

The poker analogy is vulnerable to various criticisms. For instance, it takes for granted that business activities are always adversarial and never cooperative. This leads to overstating the rationale for deceit in business (Koehn, 1997). Nevertheless, the intuitions underlying the poker analogy remain

robust. Trade secrecy is a recognised way to secure advantage over competitors. In this context, concealing the truth amounts to legitimate protection of both property and liberty rights (Bok, 1984, p. 136 – 152). Exceptional circumstances such as war or pandemic aside, society cannot expect businesses to forgo profitable secrecy without guaranteeing them exclusivity through patent, trademark, or copyright protection (Gevertz and Amado, 2004).

In addition to that, consumers are deemed naïve for assuming that ordinary truthfulness is the norm of business communication. Various manuals in “information literacy” teach them how to detect business claims, which are deliberately misleading and yet do not literally break the statutory law (e.g. Hausman, 2000). In a highly competitive market, such deceptive messages are considered the rule rather than the exception. More importantly, it is the consumer who is expected to change attitudes – back to the classical *Caveat emptor*, – rather than the businesses to become more reliable.

Having identified the key assumptions underlying the claim that truthfulness is not intrinsically valuable in business, I will now challenge each of them in turn.

***Counterargument I: If truthfulness does not have an intrinsic value, it cannot have an instrumental value either***

According to the first part of the contested hypothesis, truthfulness has only an instrumental value for business. In this section, I will identify an implicit contradiction, from which this claim suffers, i.e. it is impossible to instrumentally value truthfulness without recognising its intrinsic value. I will then address a possible way to connect the intrinsic value of truthfulness to its instrumental value and pinpoint its major problems.

The claim that truthfulness has an instrumental value only is self-defeating, because truthfulness cannot achieve its instrumental purpose, if it is appreciated only instrumentally. For instance, if a business party displays truthfulness only when it suits them best, they will rightly be considered

untruthful. As a result, their instrumental attitude towards truthfulness undermines the advantages that truthfulness can offer, i.e. profitable business interactions based on trust.

This point is conceptual. It arises from the very nature of truthfulness as a stable disposition to respect the norms of truth and should be distinguished from an apparently similar argument brought by Williams (2002). In his fictional genealogy, Williams draws the intrinsic value of truthfulness from its instrumental value for successful cooperation. According to his account, it is crucial that humans value truthfulness for its own sake. If they do not, they would not reliably combine forces to discover and share useful information. Being instrumental in the survival of mankind conveys an intrinsic value to truthfulness.

Williams's fictional genealogy is meant to be a compelling evolutionary explanation. However, the transition from the instrumental value of truthfulness to its intrinsic value is inconclusive in this evolutionary context. For instance, the importance of truth-telling for mankind's survival can lead to conclusions, which are incompatible with truthfulness having an instrumental, let alone intrinsic value. According to Serban (2001, p. 3 – 5), only people who know when to lie and when to tell the truth are able to beat the odds even under adverse circumstances. From an adaptational point of view, they should be considered successful. Hence, the valuable disposition is not truthfulness, but the capacity to both lie selectively and detect other people's lies. From this perspective, frequent truth-telling improves one's chances for successful deceit, which requires some reasonable level of credibility, e.g. mythomaniacs are not very capable fraudsters. Subsequently, being truthful appears preferable only to counterproductive lying. As a stable disposition, truthfulness should neither be considered instrumentally valuable to prosperous business, nor to successful social interaction in general.

To sum up, my argument so far shows that, in an evolutionary context, the instrumental value of truthfulness is an insufficient basis for establishing its intrinsic value. Furthermore, even the claim that truthfulness is instrumental to mankind's survival can be challenged, because plain self-interest could provide sufficiently strong incentives for telling the truth most of the time. The instrumental value of truthfulness vanishes, if it is not safely related to its intrinsic value. The fictional genealogy

is unconvincing, because it misconstrues the link between the intrinsic and the instrumental value of truthfulness.

***Counterargument II: As a virtue, truthfulness is both valuable for its own sake and instrumental in achieving further valuable goals***

In this section, I shall provide an alternative to the evolutionary explanations above, i.e. a conceptual analysis of truthfulness, which clears up the relationship between its intrinsic and instrumental value. My account will draw on two distinctions from Aristotle's *Metaphysics* and *Nicomachean Ethics*.

The distinction between skill and virtue is particularly helpful for further clarifying my initial definition of truthfulness as a stable disposition to tell the truth in a responsible, relevant and unambiguous way. According to Aristotle, both skills and virtues fall within the broader category of stable dispositions, the acquisition of which requires intentional effort and exercise (*Nicomachean Ethics* VI, 4). However, skills are vulnerable to abuse, whereas virtues are not. For instance, preserving and restoring health is the natural purpose of medicine, a typical Aristotelian skill. Nevertheless, medical competence can also be used for the opposite purpose, i.e. causing illness and even death (*Metaphysics* IX, 2). In contrast, it is impossible to knowingly apply a virtue to the successful deployment of the opposite vice. Courage cannot be useful for carrying out pusillanimous acts. As long as one is brave, one is incapable of intentionally performing such acts.<sup>2</sup>

In the light of the preceding distinction, the conceptual mistake involved in valuing truthfulness only instrumentally amounts to misconceiving truthfulness as a skill that allows various uses and abuses. The idea of truthfulness as a prospective virtue appears worth exploring.

The systematic exposition of worthy ends and actions from the *Nicomachean Ethics* I, 7 offers a distinction between three kinds of valuable things. Some are only valuable for the sake of something else, whilst others are both valuable in themselves and for the sake of something else. Still others are only valuable in themselves. They cannot be valued for the sake of anything else.

According to Aristotle, the last category has only one member, i.e. human flourishing. Despite its crucial role in Aristotle's ethics, this concept is not essential for my account of truthfulness. Subsequently, I will only consider the preceding two value categories.

Skills belong to the first category – that of purely instrumental values, because, in the realm of skills, the intended results are separate from the exercise of the valued disposition. The outcome has both logical and axiological priority over the skill's employment. For instance, medicine is defined in terms of its projected effect, i.e. health so that one cannot grasp what is medicine without mastering the notion of health. Furthermore, health makes medical practice worthy – that is as a health service, not an efficient way to harm people.

Conversely, virtues fit into the second category, i.e. things having both intrinsic and instrumental value. Unlike skills, put into practice, virtues are identical to their natural consequences. For instance, caring for one's friends is not the outcome of friendship, but rather what it means to be a friend. Similarly, telling the truth is not merely the result of truthfulness, but rather what it means to be truthful.

In fact, being indistinguishable from their inherent effects makes it impossible for virtues to be applied for an improper purpose. It does not make sense to say that friendship, i.e. the stable disposition to care for one's friends can also be handy for destroying their lives. Having such purpose in mind, one can indeed pretend to be somebody's friend and feign the signs of care and affection involved in friendship. Likewise, simulated, but not genuine truthfulness can successfully further deceitful intents.

Having clarified the reasons for valuing virtues in themselves, I will now turn to the issue of their further instrumental value. My starting point will be to clear up a possible misunderstanding that may arise from the examples above. The claim that virtues in practice are indistinguishable from their natural consequences can be misinterpreted as stating that virtues cannot have any additional worthy outcomes or, at least, that virtues should not be valued for the sake of such outcomes.

Such extreme opposition between skills and virtues is both gratuitous and counterintuitive.<sup>3</sup> It would imply that in order to be a true friend, one should not appreciate the opportunity to rely on one's friends' assistance. Equally, it would forbid hoping to be trusted as a result of one's truthfulness. But there is nothing commendable in being insensitive to the worthy effects associated with the exercise of particular virtues. For instance, a warrior's courage could not be diminished, because he aspires to win the battle and not only to fight courageously. In contrast, an exclusive focus on the additional consequences may be destructive to virtues. For instance, the eagerness to earn somebody's trust may turn into conformity to their expectations, which undermines truthfulness.

In the light of this analysis, truthfulness appears to be a virtue rather than a skill. Subsequently, its instrumental value cannot be realised in competition with its intrinsic value, on which it fully depends. The account of truthfulness as a virtue corrects the relationship between its intrinsic and instrumental value proposed by Williams. In doing this, it provides a high ground for the key thesis of Williams's fictional genealogy, i.e. truthfulness is essential for human interactions.

### ***Counterargument III: Unlike poker, business is a truthful practice***

In the following, I shall complete my initial criticism against the analogy between business and poker by showing that business is not different from normal social practices, which recognise the value of truthfulness.

Before addressing this issue though, I shall tackle a possible challenge based on Serban's evolutionary story. According to this challenge, showing that business makes no exception is beside the point, because selective lying as a general attitude is more appropriate than truthfulness. My reply to this objection is twofold.

On the one hand, "more appropriate" could mean that clever tricksters do generally better than equally clever, but truthful people. Even if it were confirmed, this empirical hypothesis would have



no bearing on my account, which is normative and does not rely on considerations about how often truthfulness might “pay off”.

On the other hand, “more appropriate” could mean that it is more reasonable to cultivate a selective capacity to lie rather than respect for truth. Again, if this stands for more advantageous in pecuniary terms, the challenge is immaterial. After all, robbery can sometimes be more advantageous than respect for property, but does not prove any point against it. In contrast, the previous challenge, i.e. being an apt deceiver is more reasonable than being truthful can be understood as a normative claim. But this is a plainly false claim. In itself, telling the truth does not need a particular reason, whereas any deceit stands in need of justification.<sup>4</sup> Lying is always *prima facie* unreasonable. An attitude fundamentally sympathetic to lying cannot be as reasonable as truthfulness, let alone more reasonable than it.

Having dismissed the preceding objection, which confuses two distinct levels of analysis, i.e. conceptual and empirical I will now turn to the main point of the section. For instance, my account of truthfulness as a virtue may be challenged as irrelevant to business, which is a competitive for-profit enterprise. Failure to understand the nature of business, this new challenge states, drives society to unreasonably expect businesses to be truthful and businesses to try and fulfil – to their detriment – this misguided social expectation. Business parties are certainly not disinterested, when they enter communication. Hence, the requirement to be truthful is unreasonably harsh on them. It would amount to asking businesses to forgo their primary interests, e.g. by releasing a profitable trade secret without compensation.

The objection above fails to show that business practices should be exempt from the constraints of truthfulness. Like businesses, individuals rarely enter communication disinterested. Yet, standing to gain from an interaction does not give individuals the licence to cheat. Furthermore, legitimate trade secrecy does not back up the case for business exception with regard to truthfulness. Trade secrets are the extension of a principle, concerned originally with the protection of individual liberties and rights, i.e. self-defence (Bok, 1984). Besides, businesses are entitled to defend secrecy to a lesser extent than individuals their privacy. Nobody would be considered untruthful because of

their unwillingness to share family concerns with the local busybody. Moreover, some invaders of privacy can put truthful people in situations, in which deceit is a necessary defence (MacIntyre, 1995; Williams, 2002, p. 117). Forced deceit does not violate truthfulness any more than knocking out an assailant violates the respect for human life. In contrast, it is difficult to think of a business situation that has a relevantly similar urgency to deceive in self-defence. The reason for this is precisely the nature of business, i.e. a for-profit enterprise, remote from any vital danger – at least for the management.<sup>5</sup>

To sum up, being for-profit is not in itself a feature that can exempt business from the obligation to be truthful. Thus, business can only avoid the requirement of truthfulness, if it is – like poker – a special game, the rules of which override truthfulness.

A comparison between two kinds of healthcare provision will offer a helpful test for the assumption above. If being a business removes the constraints of truthfulness from a practice, only the healthcare providers operating as a social service, but not those who are for-profit should be subject to these constraints. Subsequently, prescribing useless and expensive treatments should constitute a case of malpractice only for practitioners in a social service framework. In contrast, the licence to being untruthful in a similar way should be granted to doctors who would get a percentage on the prescribed treatments.

This outcome is very implausible. Arguably, for-profit healthcare systems provide more incentives for fraud than those based on social solidarity. However, it does not follow that deceit is acceptable in for-profit systems. On the contrary, the prevention of deceitful practices is considered crucial for preserving the nature of for-profit healthcare *qua* healthcare (Institute of Medicine, 1986).

The previous example suggests that the analogy between game and business should be taken at a more abstract level, i.e. all games are about winning and all businesses are about making profit. In this analogy, poker cannot be the default game example, because it matches only bargaining, which is not the core business practice. Acquaintance with poker can hardly give an insight to the rules of football. Likewise, trading second-hand CDs would not make one knowledgeable in the food industry. Thus, the analogy between game and business shows that it is as futile to try and capture

the respective nature of businesses by stating that they are all for-profit, as it is to try and teach chess to a footballer by pointing out that chess, like football is about winning.

The fact that all businesses are indeed for profit, but in a highly specific way, i.e. by delivering particular goods and services, provides a good starting point for appreciating the value of truthfulness in business. In order to be successful, a business has to be profitable by remaining within the limits of a declared type and striving to achieve its standards of excellence (Duska, 2000). A game analogy can usefully clarify this point.

For instance, secretly murdering all stronger opponents may be the most efficient way of winning a chess championship. Despite all external gratifications that a champion title could bring to the offender, this would not count as being a successful chessplayer. Although less extreme, winning the tournament by cheating is relevantly similar: whatever the cheat may get, it is certainly not an achievement in chess.

This example is an illustration of the two kinds of goods that playing chess or any other practice can bring about, i.e. internal and external (MacIntyre, 1985).<sup>6</sup> Some of them, like social prestige and money, are accidentally connected to excellence in practices. It is always possible to attain such goods in alternative ways, e.g. by cheating or simply engaging in another practice. These goods are external to the practices, which are instrumental to acquiring them. In contrast, the goods that are internal to a practice can be achieved only by successfully engaging in this practice. Moreover, the internal goods cannot even be identified and recognised without valuing the practice for its own sake. For instance, a child who is motivated to play chess only because she is promised suits if she wins, is a superficial chess-player in the sense that she neither pursues, nor even perceives the goods internal to chess-playing. As long as the child plays chess for the sake of the external reward, she has no reason to abide by the rules rather than cheat whenever she believes that she can get away with it. In contrast, if the child starts enjoying chess and strives to become a fine player, she has to develop the virtue of truthfulness – at least with regard to playing that game.

From the above, I infer that truthfulness in a game consists in striving to achieve its internal goods. It constraints the pursuit of external goods, which should not be sought at the expense of the game's

internal goods. This observation applies to businesses as well. For each business consists of a practice defined by its own internal goods. They determine the way, in which it has to be profitable and, by this, set its specific standards of both excellence and truthfulness. Conversely, seeking profit without striving to achieve its own internal goods makes a business profoundly untruthful, even though it may not be fraudulent and deceptive in the ordinary sense.

***A case study: the current crisis of trust in the pharmaceutical industry***

In this final section, I will illustrate my account of truthfulness in business by focusing on the problem of decreasing trust in the pharmaceutical industry. It provides an interesting case, because the pharmaceuticals are no longer considered trustworthy despite the high return to investment that they still offer. Moreover, they are, in a way, blamed for being too profitable.

This paradox has attracted the attention of both industry leaders and experts coming from different backgrounds such as business management, law, social science, and psychology (Salek and Edgar, 2002; Santoro and Gorrie, 2005; Rooner, 2005). Various issues, e.g. drugs unavailability in the developing world and overmedication in the developed world contribute to the untrustworthy image of the pharmaceuticals (Radoilska and Scott, 2005). The *Kaiser HealthPoll Report* (2005) captures well the underlying idea, which is that the pharmaceutical industry is considered to “put profits before people”.

This criticism does not make sense, if being profitable is the chief purpose of business. A possible suggestion would be that it is wrong for the pharmaceutical industry to “put profits before people”, because its products relate to fundamental human needs, i.e. health. However, other businesses, such as the food and construction industries entertain similar links to other fundamental needs, i.e. food and shelter without being considered deficient for “putting profits before people”. For instance, nobody holds food producers responsible for the existence of world hunger, whereas the pharmaceuticals get constantly blamed, amongst other failings, for the inadequate access to drugs in the developing world.

My account of truthfulness in business provides a better standpoint for understanding the public reaction towards the pharmaceuticals. It makes perfect sense in the light of their switch from life-saving drugs to life-style blockbusters (Lanjow, 2003). Despite being justified as apparently more profitable, this move dramatically undermined the industry's internal goods, i.e. discovering, developing, and bringing to the market safe and efficient medicines. The nature of the pharmaceutical business is expressed by George W. Merck's famous motto (Hawthorne, 2003):

“We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered that, the larger they have been.”

It insightfully captures the importance of setting the right priorities between “people” and “profits”, internal and external goods in the pharmaceutical industry. In particular, Merck's maxim indicates that by giving precedence to its internal goods, the industry could avoid the unhealthy dilemma to either “put profits before people” or run at a loss, which follows from pursuing profits as an independent goal.

Hence, when the pharmaceuticals are criticised for making their profits in the wrong way, e.g. by selling imaginary diseases to the well-off, they are actually criticised for no longer being the business that they claim to be (Moynihan, Heath, and Henry, 2002). For this reason, they are considered profoundly untruthful. Against this background, voluntary drug withdrawals from the market are not appreciated as instances of telling the truth despite the prospective financial loss (Angell, 2005, pp. 265 – 276). Instead, they are scrutinised as the top of the iceberg, i.e. information about pharmaceutical products is deemed systematically biased by an industry, which promotes drugs by corrupting science and co-opting major regulatory agencies (Smith, 2003; Frantz, 2005).

## ***Conclusion***

The difficult situation, in which the pharmaceutical industry currently finds itself, shows how damaging the failure to recognise the intrinsic value of truthfulness can be for a business. In particular, the belief that profits are the main purpose of business leads companies to perceive the achievement of their internal goods as secondary. But this has the potential of driving these companies into a “lose-lose” alternative between doing their job and making profits. Properly understood, the classical analogy between game and business can provide a helpful way-out. For it reveals that instead of being exempt from the ordinary requirements of truthfulness, businesses have to satisfy a further condition, which is to earn their profits just by delivering the goods and services, they are meant to deliver.

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<sup>1</sup> Pace Korsgaard (1983), I will assume that the distinctions between instrumental and final value and between extrinsic and intrinsic value overlap.

<sup>2</sup> On the concept of moral incapacity or impossibility, see Williams (1981; 1995).

<sup>3</sup> The mistake involved in opposing skills and virtues is relevantly similar to that of considering processes and activities mutually exclusive. See Hurka's criticism of the "Aristotelian" view on value (2006), which is based on the latter confusion.

<sup>4</sup> Bok's Principle of Veracity (1978, p. 30 -31) builds upon the asymmetry between truth and falsehood.

<sup>5</sup> One can indeed conceive some mafia-like criminal structure terrorising businesspeople with death threats in case of non-compliance. However, such eventuality can neither count as a "business situation", nor provide a guideline for business practices (Gambetta, 1988).

<sup>6</sup> MacIntyre (1985, p. 1987) defines 'practice' as "any coherent and complex form of socially established cooperative human activity". Both games and businesses safely fit into this category.

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