

Institutions, Ethics and Spirituality – their Implications for the Competitiveness in the Global Economy

Introduction

Modern economic theory pays more than in the past attention to the role of institutions as well as to the new institutional economics (the theory of institutions). Also modern studies on competitiveness on corporate and national level include the reflection on the role of values and ethics in the development process. Reflection on values and the quality of institutions is important not only on microeconomic level (development of the CSR), but also in case of studies of European Union and its future (e.g. Lisbon Strategy). According to J.H. Dunning the most important elements of competitiveness-oriented strategy are: the quality of institutions (including ethical standards), infrastructure as well as the quality of the factors of production (including education). In case of Poland during the debate on relations between modernization and values one should also remember the legacy of John Paul II and “Solidarity” movement.

The relations between institutions, values and economic development belong to the serious interesting and controversial problems in the methodological and theoretical interdisciplinary debates. One of the aspects of this debate is also question of interactions between institutions, business ethics and international competitiveness.

Institutions and their implications for development and competitiveness

Interesting intellectual and methodological proposals and attempt of explanation gives here -among others - the Constitutional Political Economy with very interesting and crucial concept of the institution and transaction costs.

Institutions, according to this concept, are the legal, administrative and customary arrangements for the repeated human interactions. Their major function is to enhance the predictability of human behavior.¹

The prevailing institutional framework in a society consists of both formal and informal rules. Formal rules are constitutions, statutes, common laws and other governmental regulations. They define the political system (the hierarchical structure, decision - making powers, the individual's rights), the economic system (property rights in scarce resources, contracts), and the protection system (judiciary, police, military). Informal rules have their origins in the experiences, traditional values, ethos, religious beliefs, ethnicity and other factors. They are part of the heritage of culture which is transmitted from one generation to another, usually via teaching and imitation.²

The character of the interacting institutions (liberties, religion, ethics, law, economic environment, social behaviors) determines the character and the scale of the transaction costs.

Institutions (political institutions, law, religion, traditions, customs) have important impact on the character of economic development. Character of institutions can stimulate growth, or create barriers on the way towards more efficient structures.

The concept of competitiveness

The most popular are definitions of competitiveness have been presented by the World Economic Forum (World Competitiveness Report, World Competitiveness Yearbook) and OECD.

According to the World Competitiveness Report competitiveness is the ability of a country or a company to, proportionally, generate more wealth than its competitors in world markets. For the record the OECD definition is the following: "Competitiveness is the degree in which a country can, under free and fair market conditions, produce

¹ S.Pejovich: *Economic Analysis of Institutions and Systems*, Kluwer, Dordrecht, 1994, p.30.

² J.M. Mbaku: *Preparing Africa for the 21th Century, Lessons from the Constitutional Economics, Constitutional Political Economy*, vol.5, no. 2, 1995, p.139.

goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term".³

The World Competitiveness Yearbook 1996 presents new definition. Competitiveness is the ability of a country to create added value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity, and by integrating these relationships into an economic and social model.⁴

Today it is more and more clear, that the crucial role is played not only by the "hard" factors, but also by the "soft" factors: by the quality of resources (mostly human capital) and character of domestic and international institutional environment.

More and more often economic competitiveness is being discussed not only in pure economic categories, but also from the point of view of other "soft" aspects like the quality of life.

There are at least two groups of approaches to the concept of competitiveness:

1. Traditional approach – competitiveness treated as (only) an economic reality
2. More modern approach – competitiveness treated mostly as an economic reality (but not only) – pure economic competitiveness becomes part of broader concept.

Even the first approach can suggest importance of existence of institutional infrastructure and environment, law as well as basic ethics in the society.

The second approach suggests, that economic competitiveness is also determined by social stability, morality, attitudes towards sustainability, even by some aspects of "spirituality" (human relations, religious inspiration). Competitiveness means also creation of pre-conditions for long-term development (development means more than

³ *The World Competitiveness Report 1994*, World Economic Forum, IMD, Lausanne 1994, p. 18.

⁴ *The World Competitiveness Yearbook 1996*, World Economic Forum, IMD, Lausanne, 1996, p. 7.

only growth, includes also the quality of life...). Also non-economic factors became important part of broader reflection on the prospects of the country and corporation. The idea of “Institutional Competitiveness” as important element of reflection on competitiveness.

Competitiveness and the global economy

Today more and more often scholars mention the problem of globalization and the global economy. Global Economy is a system of world-scale, long-term economic links between countries. Globalization refers to the growing interdependencies of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services, and of international capital flows; and also through the rapid and widespread diffusion of all kinds of technology.

Today's globalization is characterized by unprecedented degree of free and fast movement of capital around the whole globe, and by the global institutions of a financial superstructure. Capital has acquired predominance over other factors of production, economic activities are coordinated by globally integrated financial and capital markets.

Modern global economy according to J. H. Dunning is characterized by:

- Global capitalism
- Alliance capitalism
- Knowledge-based capitalism⁵.

The most interesting aspects of the all above-mentioned “three faces” of modern globalization process can be summarized as:

- The increasing importance of all forms of intellectual capital in both the asset-creating and asset-exploiting activities of firms.
- The growth of cooperative ventures and alliances between, and within, the main wealth-creating institutions.
- The liberalization of both internal and cross-border markets.
- The emergence of several new major economic players in the world economy⁶.

⁵ J. Dunning, *Global Capitalism at Bay?*, Routledge, New York and London 2001, p. 49

⁶ J. Dunning, *Regions, Globalization and the Knowledge-Based Economy*, Oxford University Press, Oxford 2000, p. 8.

He suggests that the world is entering into a new phase of market-based capitalism and that the characteristics of this phase are demanding a reconfiguration of the content and structure of the market system as it has evolved over the years - and of its institutional and ethical underpinnings.

Three faces of modern capitalism can be treated as a challenge for modern ethical reflection, particularly for Christianity. The moral challenge of global capitalism means the need to re-think and concentrate on three groups of values and virtues promoted by the modern Christian philosophy: creativity (connected with individual responsibility), cooperation and compassion (social justice)⁷.

The norms, values and spirituality - implications for development.

The values and norms shared by the members of the society will influence the shaping of its institutions, especially the legal system, which in turn is a decisive factor determining its prospects for economic growth.

The values and norms shared by the members of one society are reflected in that society's institutions. Institutions will also inter alia determine its prospects for economic growth. It however of course does not mean that the value system of the society is the only factor determining its economic performances.

The role of institutions and ethics in the economy as well as in public life underlines Pope John Paul II in his encyclical letter "Centesimus annus" and other documents. He accepts market, private property and the profit-oriented motivation, but he does not accept concentration only on profit⁸.

Today more and more scholars present in the public debate the concept of "responsible competition and competitiveness". The concept of responsible competitiveness can be treated as the attempt to answer the question how to joint and combine the idea of economic competitiveness with the concept of values,

⁷ Ibidem, p. 70

⁸ John Paul II, *Centesimus Annus*, Vatican 1991.

responsibility and sustainability (on the level of corporation and national economy level).

There are several dilemmas and paradoxes of competitiveness and responsibility/sustainability:

- It is not easy to be competitive and responsible, but in long-term perspective it is very important (particularly in conditions of alliance capitalism and knowledge-based economy)
- Strong concentration on traditional approach towards competitiveness can create positive economic consequences, but is not enough from the point of view of long-term development, sustainability and the quality of life (if they are important for us)
- Very strong concentration on sustainability and social responsibility can be however also dangerous for economic growth (high costs, tendencies towards over-regulation) – important element of economic and social development.

It is relatively difficult but possible and necessary to promote dialogue between two groups of concepts: the idea of competitiveness and the personalistic ideas of responsibility, community and spirituality. It is very difficult (but sometimes also possible) in case of very conservative and fundamentalist concept of religion, ethics and spirituality, becomes easier if we try to introduce personalism, religious and social values open for modernization.

Spirituality and religion can be important element of reflection on competitiveness:

- Vision of the human person and relations person-society (human relations in the society and on corporate level)
- Shows the role of economic values (their importance and limits)
- Creates additional inspiration for ethical behavior
- Concentrates on religious and humanistic inspirations of the economic and social activity
- Becomes one of the inspirations for values crucial for modern business and society: trust, solidarity, responsibility (responsible competitiveness), creativity, cooperation, compassion.

- “Personalistic” spirituality helps to bridge the gap between modernization and tradition, freedom and solidarity, individual success and the community orientation.

Business ethics – CSR – spirituality of management

Today we observe growing interest in business ethics reflection and its links with the management theory. It is reflected in the development of Corporate Social Responsibility theory. It is from one side sign of hope, however creates also some problems. It creates the danger of moralistic approach as well as instrumentalism in the ethical and CSR reflection. According to some specialist personalistic (particularly Christian) approach to the ethical reflection on economic development should not be reduced to the moralism and instrumentalism, but has to be enriched by the spirituality and personalistic and/or religious approach.

Modern reflection about institutions, spirituality and competitiveness in the global economy can not be reduced just to the question of moralism and business ethics. It should be treated as much broader reality. Interesting inspiration give here such persons, like John Paul II, Michael Novak or John Dunning.

According to M. Novak, for example, it is necessary to remember about the “spirit of democratic capitalism” and about the “moral ecology” – the ethos that must be cultivated and preserved if democratic societies are to survive. Novak argues in defense of the free and virtuous society by examining the family, welfare reform, free markets, self-government. He supports the idea of “ordered liberty” as the symbol of necessary links between freedom (also economic freedom and efficiency) and spiritual as well as ethical values. His approach is very “American”, but also in Europe we have to discuss the European model of relations between economic efficiency and freedom, social, religious and ethical values⁹.

In the improvement of “the spirit of democratic capitalism” important role can be played by many kind of associations, movement and communities: both religious or just of ethical/humanitarian character. I would like to mention particularly such as:

⁹ See: M. Novak, *On Cultivating Liberty*, Rowman and Littlefield Publ., Lanham, 1999 and M. Novak, *This Hemisphere of Liberty*, The AEI Press, Washington 1992.

from one side Caux Round Table, Global Compact, Transparency International, from other side more spiritually oriented communities: Taize, Sant. Egidio, Opus Dei. According to me their role in the globalizing economy will be in the future even bigger than now.

Implications for the economic policy

What is the best way for the governments to improve the competitiveness of national economy in the period of globalization and regional integration? According to many specialists the tools are different than in the past. In the past government could introduce many tools and forms of industrial policy (protectionism) or to concentrate on the free market mechanism (liberalism). Today we realize, that many forms of interventionism are inadequate for modern conditions, but pure liberalism is also not always the best solution.

Most specialists suggest that the state should first of all:

- improve institutions and institutional environment of their economies in order to reduce the transaction costs of business activity;
- work for increasing of competitiveness of their factors of production, particularly infrastructure and quality of human capital (John Dunning calls this role of government as resource creator or improver);¹⁰
- improve quality of infrastructure.

Government can be seen this way as a facilitator of competitiveness as well as inspirator of Macro-Economic Policy and economic climate (milieu).

Here we see the role of institutions (formal and informal, including morality and religion) as well as social capital as the facilitators of competitiveness.

The role of the institutions as one of the sources of growth and differences in economic level (in wide sense) can be presented and seen in some aspects and dimensions:

- the role in the historical process (influence on the institutions and systems);
- the macroeconomic dimension (human capital and competitiveness);

¹⁰ J. Dunning: *Governments, Economic Organization and International Competitiveness*, in: *Corporate and Industry Strategies for Europe*, Mattson and Stymne, Elsevier, 1991, p.50.

- the microeconomic dimension (character of the business and corporate culture, model of management, principles of business ethics);
- culture vs. internationalization of the economic and business activity.

The case of East - Central Europe

One of our main paradoxes is that the country and the nation of “Solidarity” and John Paul II still has strong problems with ethical standards in public life and business. Even during the last election campaign we could observe paradoxical in fact debate around the question: which one of two vital and necessary ethical and social values is more important: freedom or solidarity. It is however optimistic, that the intellectual, social and political elites understand this question now much better than even 10-15 years ago in the beginning of the transformation process.

Some years ago we have celebrated in Poland 25th anniversary of “Solidarność” (“Solidarity” Trade Union and movement for social, spiritual and political liberation). It is important to reflect the legacy of “Solidarity” tradition as well as the ethical meaning of ‘solidarity’ as an ethical value, particularly relations between ethical aspects of solidarity and economic efficiency and competitiveness. The second important aspect of the reflection on relations between values and development is the legacy of Pope John Paul II. We must ask and answer very important questions: Is it possible to build competitive, but also ethical society and corporation and how to achieve such a goal? Very important is also question how to build society and business which respects two important ideas: freedom and solidarity.

Implications for the business ethics education in modern Europe

Theory of institutions and theory of the social capital should play important role in the business ethics teaching. It is not enough to concentrate mostly on corporate social responsibility and ethical codes of conduct. Student should also be able to discuss the institutional theory, theory of social capital, about institutional competition and competitiveness, “the ethics of institutions” as well as implications of so-called “soft” or informal institutions (culture, religion) for the development. Debate and teaching should cover also more and more popular “spirituality of management” as well as

interdependence between religion and economic life. Particularly in Central European countries like Poland it is almost impossible to discuss the business ethics and the ethics of economic life without reflection on modern catholic social teaching and encyclical letters (e.a. *Centesimus Annus* by John Paul II). It is also impossible to understand modern european business ethics without reflections on catholic and protestant teaching.

Only in the future it will be possible to see if the character of the institutions (among them culture) stimulates the success of transformation. One is evident: the cultural institutions and level of human capital determine the character of growth as well as they are interacting phenomena's; the experience of the East-Central Europe shows also the importance of adequate coexistence between culture, values and market.

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