Does the Market Instill Virtues?

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Abstract: Using Ian Maitland's virtuous markets constructs (trust, sympathy, fairness and self-control), this study sought to measure optimistic and pessimistic views of the market. Optimists believe that the market generates its own self-sustaining set of virtues by rewarding behavior that is good for individuals and society. Pessimists, on the other hand, hold that the market destroys the virtues essential to the functioning of both the market itself and civil society. An 18-item instrument was constructed with 2 optimistic and 2 pessimistic items representing each construct. The results indicate that the instrument clearly distinguishes between optimistic and pessimistic views of the market. Using the instrument, we surveyed MBA students in the U.S., Croatia and South Africa and found significant differences among the three groups. We also found that the majority of respondents can be described as high optimism-mid pessimism or high optimism-low pessimism and that nationality is a significant predictor of optimism.

Background

Ian Maitland (1997), in his article, "Virtuous markets: the market as a school for virtues," extrapolating from the work of Adam Smith, Donald McCloskey, William Galston, Albert Hirschman, Robert Bellah, Daniel Bell, Alasdair MacIntrye, Gertrude Himmelfarb, Fred Hirsch, Kenneth Arrow and others, sets forth a distinction between market pessimists and market optimists. Pessimists and optimists agree that the market produces more than goods and services; it also produces a particular kind of person. They disagree though on what kind of person that is.

Maitland writes that market pessimists come in both left-wing and right-wing types. Notwithstanding their ideological geography, they generally agree that the free market destroys the social values of both individuals and societies under the sway of market forces. According the pessimistic thesis, the market produces people who are greedy, selfish, materialistic maximizers who are unconcerned about the effect of their behavior on others. Pessimists assert that without the countervailing influence of social, familial, religious and cultural institutions, market forces would tear society apart. The market societies' cultural and social institutions remain viable only because they are able to "borrow" values from the past in an effort to counter the corrosive effects of the rampant individualism encouraged by the market ethos.

Market optimists, on the other hand, argue that the market society, as a direct consequence of free market activity, generates it own set of values that are beneficial for both individuals and societies. Optimists assert that market societies tend to be more honest, reliable, orderly, disciplined, friendly, helpful, and tolerant. According to the optimistic thesis, the market rewards behaviors that are socially useful as well as personally beneficial. They point out that the market relies on free choice. Thus any action or decision on the part of market participants must take account of the fact that other participants can find a partner who is more interested in helping them achieve their goals. Hence the market encourages the formation of those virtues that make for solid, mutually beneficial long term relationships.

Maitland's concern is about discerning which viewpoint is objectively more accurate.

> "Which view is right? Does the market subvert or strengthen the virtues which it depends on for its own smooth functioning? What sort of character traits does the market reward--and so, presumably, reinforce and diffuse through society? Do these traits undermine or support the operation of the market and liberal political institutions?" (p.17)

We find Maitland's distinction intriguing. In reading articles and books or conversing with others, we began to identify the optimistic/pessimistic frameworks operating unacknowledged just below the surface. We wondered if it might be possible to measure the degree of market optimism or pessimism held by someone. Our concern is not which view is right, but which view is held?

In reviewing business ethics studies, we found that the term "ethics" was often used without definition or with the assumption that certain positions or practices were, de facto, virtuous. We also found that many studies began by assuming the pessimistic perspective (Bowen et al. 2006, Taylor 2002a and 2002b, Evans & Marcal 2005**,** Kliucharev & Muckle 2005, Das 2005). Others address a specific virtue; for example, trust (Paine et al. 2003, Soroka et al. 2007, Leland et al.

2004, Glaeser et al. 2000). However, we have not found a study that made the optimistic-pessimistic distinction the focus of its research.

Methodology

The methodological approach of the study is guided by a reasonable balance between conceptual and psychometric considerations. Operationally defining virtuous constructs as they relate to the market is, of necessity, an ongoing process. A construct is generally conceived as an abstract entity that represents the 'true' nature of a phenomenon and the first step in its operationalization is to delineate its domain.

A useful way of conceptualizing virtuous business practices is to look at how a firm treats its stakeholders: owners, employees, customers, suppliers, trade associations, communities, and the public at large. If we ask which virtues are, or are not, rewarded in a market economy, we need to clarify, "rewarded in which of the stakeholder relationships?" If left unspecified, different respondents may be thinking of different stakeholders when answering virtue related questions. This paper confines itself to the firm's relationship with customers, its core constituent.

In creating an instrument that addressed these issues, we accepted Maitland's virtues set: trustworthiness, sympathy, fairness and self-control. By trust, he means keeping one's promises. Sympathy refers to being able to think what the other person needs and helping them achieve it. Fairness means awarding people what they have earned or deserved. Self-control is forgoing a short-term transactional advantage in exchange for strengthening the long-term relationship.

The scale development process was informed by Churchill's (1979) guidelines for developing measures that have the desirable reliability & validity properties. To ensure content validity, the subject domain was thoroughly examined and a panel of experts was used to review the test specifications and the selection of items. We avoided using the terms trustworthiness, sympathy, fairness and self-control, rather we described the behaviors that exemplified those behaviors.

An initial pool of 34 questions was generated relating to the four virtues. We used a 5-point scale ranging from "Strongly Agree" = 1 and "Strongly Disagree" = 5, with 3 representing neutrality. Approximately 25% of the questions were negatively worded. This pilot survey was distributed to a group of 45 respondents in the United States.

Confirmatory factory analysis was set up for the four *a priori* items using Varimax rotation with Kaiser normalization. However, the questions allocated to the categories of trust, sympathy, fairness and self-control did not match the factor analysis and there were significant overlaps. This suggests that a different structure underlies the data. Reliability coefficients computed for each of the four categories were generally low, but the total scale reliability computed to 0.983. Based on a scree plot, four components explained 46% of the variance in item responses. Multicollinear questions were eliminated, and others were rephrased, resulting in a new survey of 18 questions.

This survey consisted of two optimistic and two pessimistic items representing each of the four virtues. Two additional items were added to represent general market optimism and pessimism.

Thus, items 1, 5, 10, and 14 represent *trust*; items 2, 6, 11, and 15 represent *self-control*; items 3, 7, 12, and 16 represent *sympathy*, items 4, 8, 13, and 17 represent *fairness*, and items 9 and 18 represent *general feelings towards markets*. Furthermore, items 1-4 and 9-13 represent *market optimism* and items 5-8 and 14-18 represent *market pessimism*. The impact of ordering the items in this manner were not investigated, as all respondents were given items in the same order. The following is an example of a statement pair on the issue of trustworthiness.

Optimistic: It is in a company's long-term interest to keep its promises to customers.
Pessimistic: Companies will not keep their promises to customers without strong legal regulations.

Given that culture informs and frames ethics, we chose to conduct this study in three distinct cultural contexts: the United States, Croatia, and South Africa. Our subjects were working adults, enrolled in part-time MBA programs. In South Africa the survey was distributed in English. In Croatia, the survey was translated into the native language and then back-translated to ensure accuracy. It took more than one iteration to get it right.

Insert Table 1 here

To determine the internal consistency of survey responses, a Spearman-Brown stepped-up correlation of 0.65 was calculated. To investigate the underlying dimensionality of responses, all pairs of inter-item correlations were first visually inspected. Positive correlations were found for all pairs of items measuring market pessimism, with 25 of these 36 correlations (69%) significant at the 0.01 level. Positive correlations were also found for the majority of items measuring market optimism, with 18 of 36 (50%) correlations significant at the 0.01 level. The majority of correlations between optimism and pessimism items were as expected, with 12 of 36 (33%) showing significant negative correlations at the 0.01 level.

These results suggest that respondents provided consistent responses to the optimism and pessimism items. The only item with unexpected relationships to the other items was item 13: *successful companies convince customers that they get what they paid for*. Responses to this optimism item failed to have a significant positive correlation with other optimism items, but did have significant positive correlations with pessimism items 7, 14, 16, 17, and 18. One possible explanation for this is the use of the word "convince," in item 13 which may have been interpreted as manipulative rather than supportive.

An exploratory factor analysis further supports the idea that, with the exception of item 13, responses distinguished between the dimensions of optimism and pessimism. Table 2 displays the results from a principle axis factor analysis with a varimax rotation. These results indicate that two factors account for 84.9% of the variance in survey responses. An inspection of the loadings shows that these factors represent market optimism and pessimism.

After reverse-scoring market optimism items so that higher scores on all items represent higher levels of market optimism, analyses were conducted to investigate the relationship among the four virtues of trust, self-control, sympathy, and fairness. A visual display of inter-item correlations and the patterns of loadings from a confirmatory factor analysis indicate that responses do

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not distinguish among the four virtues. Furthermore, inter-item correlations show that adjacent items tended to have higher correlations than the items within each virtue. This indicates the impact of ordering or contextual effects that should be considered when conducting future research.

The results indicate that the survey was able to clearly distinguish between optimistic and pessimistic views of the markets, but not among the virtues of trust, sympathy, self-control, and fairness. We were somewhat surprised by this outcome and discuss possible reasons for this below. Nonetheless, because of this, responses from this survey will only be analyzed in terms of the dimensions of optimism and pessimism.

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Insert Table 2 here

Results

Table 3 displays the distributions of responses to each item on the survey. Generally, respondents agreed with the optimism items and disagreed with the pessimism items. Respondents seem more likely to agree with optimism items than disagree with pessimism items. The only exception to these general results was found in the responses to items 7 and 18. One possible explanation for this is that, similar to item 13, item 7 contains the phrase "successful companies convince customers," while item 18 is a general question with the largest group of respondents being neutral.

Insert Table 3 here

In thinking about possible degrees of optimism and pessimism, we theorized that it was certainly possible to hold both optimistic and pessimistic views with varying degrees of strength. To determine the relationship between respondents' market optimism and pessimism, two composite scores were calculated. An optimism composite score was calculated by summing the responses to the nine optimism items (after reverse scoring). A pessimism composite score was likewise calculated by summing the responses to the nine pessimism items. Thus, both composite scores were scaled from 0-36, with higher values representing higher degrees of optimism or pessimism. These composite scores can be used to separate respondents into one of nine categories representing the intersection of optimism and pessimism levels. Scores from 0-11 represent low levels, scores from 12-24 represent mid-levels, and scores from 25-36 represent high-levels of optimism or pessimism.

Table 4 shows that the majority of respondents can be described as high optimism-mid pessimism or high optimism-low pessimism. We found that respondents with higher levels of market optimism generally have lower levels of market pessimism. This outcome is not unexpected from a group of MBA students who self select to tie their future to successfully navigating their future the marketplace.

Insert Table 4 here

To investigate differences in optimism and pessimism across nations, means scores for each group of items were compared. Histograms and chi-square tests did not indicate the data deviated significantly from normality, so parametric methods were used. Analyses of variance, displayed in Table 5, found significant differences in optimism and pessimism for each nation, with nationality accounting for 3.4% of the variance in optimism and 7.9% of the variance in pessimism.

Insert Table 5 here

Additional ANOVAs were run to investigate potential differences among nations in each of Maitland's four virtues. Even though a factor analysis found that respondents did not distinguish among these virtues on this survey, significant differences were found among nation mean scores for all categories except general optimism.

Insert Table 6 here

These significant differences indicate an "interaction" between nationality and optimism for each category. Since these data were gathered across three nations, the instrument may lack the same cognitive frame of reference, leading to the problem of measurement equivalence.

Bonferonni-adjusted post-hoc pairwise comparisons found the following significant differences:

Trust:	S. Africa is significantly more optimistic than Croatia
Self Control:	USA and S. Africa are significantly more optimistic than Croatia
Sympathy:	S. Africa is significantly more optimistic than USA and Croatia
Fairness:	USA and S. Africa are significantly more optimistic than Croatia
Total:	USA and S. Africa are significantly more optimistic than Croatia

In general, it can be concluded that respondents from USA and South Africa showed higher levels of market optimism than respondents from Croatia. To more fully investigate the impact of nationality on market optimism, respondent scores in each of the four market virtues were regressed on nationality after controlling for gender and job experience. Table 7 displays the coefficients for these regression analyses along with the percentage of variance in market optimism explained by gender, experience, and nationality.

Insert Table 7 here

These show the following:

- Gender was not a significant predictor of optimism (alone or controlling for nationality and job experience)
- Experience was not a significant predictor of optimism (alone or controlling for gender and nationality)

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- Nationality was a significant predictor of optimism (even after controlling for gender and experience)

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Discussion

The term ‘externality’ was first coined by economist A. C. Pigou in the 1920s to describe the benefits and/or costs imposed upon a third party in the course of a market transaction (Vojak 2006). Externalities can be thought of as the unintended costs or benefits of a market exchange. If the market produces a kind of person/society either virtuous or vicious, this might be thought of as an externality: either an unintended cost or benefit. This paper seeks not to measure that possible externality but the degree of the belief in that externality both positive and negative. We see this belief as significant in that much, if not most, of the debate on business ethics and often regulatory action is based on these underlying beliefs. Particular and specific judgments about policy and behavior are likely to be heavily influenced by this underlying belief. To date no study has been developed to measure the distinction in the optimism pessimism belief.

Outcome One: We set out to measure the distinction between optimistic and pessimistic beliefs in the market. Analysis of our instrument indicates that while it does not distinguish between Maitland’s four virtues, it clearly measures optimistic and pessimistic views of the market. This enables us to extend analysis of these orientations to other populations and other stakeholders. For example, we hypothesize that views of the market centered on firm-employee relationships are likely to be more pessimistic. We also surmise that the views of union members will be considerably different than those of MBA students.

Outcome Two: What we found in this study is that views of the market tend to be predicated on nationality rather than on differences of age, gender, experience, job type, firm size, or relationship status. This was a surprising find. For example, we expected that the degree of optimism would rise with the length of experience on the job. For each of the four virtues, we found that the US and/or South Africa are significantly more optimistic than Croatia. These differences might be attributable to residual effects of communism or apartheid.

Croatia also has the least experience as a market society. Despite its long history as a distinct state, it was incorporated into socialist Yugoslavia for most of the 20th century. The emergence of a market society out of socialist or communist central planning has been problematic all over Eastern/Central Europe. In its first encounter with the marketplace, nepotism, cronyism and corruption ruled and led to a serious depression and rampant unemployment. Later, Croatia has experienced more positive results as the depth of market experience increases and younger (post-socialist) managers have begun to assume positions of responsibility.

In contrast, South Africans, especially those with management skills, have had a relatively positive experience with the market. Despite the occasional downturn and some high-level corruption cases, the economy has expanded steadily since the end of apartheid in 1994. Over the past four years, it grew by an average of 5% annually and some sectors are struggling to cope with severe shortages of skilled labor. Perhaps the experience of the policies of separation under apartheid has instilled in the populace a degree of sympathy (being able to anticipate others' needs) that is lacking both in the US and Croatia.

Outcome Three

The statistical analysis shows that while respondents easily distinguished between the optimistic and pessimistic view, they did not distinguish among the four virtues. Again, this was a surprise although in retrospect perhaps it should not have been. We took careful efforts to create fine distinctions among the four virtue domains. To those less inclined toward theoretical distinctions, like work place managers, those distinctions may not register as much as a general orientation towards the market's effect on business conduct.

Future research should strive to access a more randomized sample of respondents. Given that this study found inter-item correlations between adjacent items on the survey, future researchers should take into account the impact of item ordering. Since domain indicators can co-vary for different reasons, ongoing conceptual development and more precise definitions of the corresponding domains should gradually contribute to improving the measurability of the four constructs.

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Table 1. Group comparisons

	US	Croatia	S. Africa
Sample Size	98	28	74
Percent Male	46%	48%	59%
Average Age	34	28*	37
Average Experience	11.5	6.3*	13.6
Percent Managerial	42%	32%	92%*

* significant differences at 0.05 level

Table 2. Principle Axis Factor Analysis

Intended to measure:		Item #	Loadings		Communality
Dimension	Virtues		Factor 1 (Pessimism)	Factor 2 (Optimism)	
Optimism	Trust	1	(-.2284)	.2983	.1422
		10		.5678	.3439
	Self-Control	2		.6136	.3771
		11		.7182	.5267
	Sympathy	3		.5478	.3006
		12		.3872	.1601
	Fairness	4		.4764	.2270
		13	.3791		.1530
	General	9		.2559	.0879
Pessimism	Trust	5	.2059	(-.2465)	.0132
		14	.5624		.3165
	Self-Control	6	.4141	(-.2942)	.2580
		15	.6111		.3735
	Sympathy	7	.4107		.1914
		16	.4352	(-.2772)	.2662
	Fairness	8	.6221		.3899
		17	.5233	(-.2389)	.3309
	General	18	.6091		.3821
		% of variance explained	44.0%	40.9%	

Note: Absolute loadings <0.20 are not displayed

Table 3. Distribution of Responses

	Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Optimism	1. It is in a company's long-term interest to keep its promises to customers.			3%	25%	**72%**
	10. Successful companies communicate full and accurate information to their customers.	1%	15%	22%	**42%**	20%
	2. Companies that build lasting relationships with customers are more successful than those that focus on the immediate exchange.		2%	5%	37%	**56%**
	11. Companies that nurture the loyalty of customers are more successful than those that don't.		5%	12%	**48%**	35%
	3. A company's long-term success depends on its ability to fulfill its customers' wants and needs.			4%	39%	**58%**
	12. Successful companies anticipate the wants and needs of their customers.		3%	4%	**50%**	43%
	4. Successful companies provide their customers genuine value for their money.	1%	5%	12%	**43%**	40%
	13. Successful companies convince customers that they get what they paid for.	3%	25%	24%	**39%**	10%
	9. The free market rewards behaviors that are mutually beneficial to individuals, companies, and society at large.	1%	9%	29%	**50%**	11%
Pessimism	5. Companies that misrepresent their products or services are just as successful as those that don't.	23%	**50%**	14%	9%	4%
	14. Companies will not keep their promises to customers without strong legal regulations.	10%	**57%**	21%	9%	3%
	6. Successful companies focus on maximizing short-term profits.	17%	**55%**	19%	9%	1%
	15. Only the threat of legal sanction protects customers from companies that seek to take advantage of them.	10%	**48%**	19%	19%	4%
	7. Successful companies convince customers to buy what they are selling.	5%	21%	20%	**43%**	11%
	16. Companies that take advantage of customers' ignorance and weakness are just as profitable as those that don't.	12%	**43%**	27%	17%	2%
	8. Only the threat of legal sanction protects customers from being cheated by companies.	12%	**52%**	23%	11%	3%
	17. Successful companies overcharge their customers for the value of their goods or services.	12%	**50%**	23%	13%	2%
	18. The free market is an expression of self-interest unconstrained by morality.	12%	32%	**35%**	18%	3%

Note: Shaded boxes represent the median response; bold values represent modal responses

Table 4. Summary of Market Optimists and Pessimists

		Optimism			
		Low	Mid	High	Total
Pessimism	High		1%		1%
	Mid		12%	53%	65%
	Low		3%	31%	34%
	Total	0%	16%	84%	

Numbers represent % of respondents

Table 5. Analysis of Variance

Category	USA N=97	Croatia N=27	S. Africa N=72	F (p-value)	Effect Size
Optimism	27.98 (.38)	26.37 (.85)	28.44 (.36)	3.25 (.0411)	3.4%
Pessimism	14.06 (.48)	16.96 (.96)	12.43 (.60)	8.03 (.0005)	7.9%

Numbers represent means (and standard errors)

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Table 6. ANOVA Summary

Category	USA	Croatia	S. Africa	F (p-value)
Trust	8.33	9.07	7.69	5.47 (.0049)
Self Control	8.18	9.48	7.86	5.80 (.0036)
Sympathy	9.22	9.81	8.42	6.82 (.0014)
Fairness	9.32	10.69	8.92	8.36 (.0003)
General	5.12	5.33	5.00	0.50 (.6057)
Total	40.11	44.92	37.81	10.43 (.0001)

Lower scores represent higher levels of optimism)

Table 7. Regression Coefficients

Category	Gender	Experience	US (DV)	Croatia (DV)	R-squared
Trust	.378	-.035	.654*	1.12*	0.07
Self Control	-.191	-.009	.248	1.23*	0.03
Sympathy	.274	-.026	.774*	.888	0.06
Fairness	-.284	-.007	.328	1.31*	0.05
Total	-.006	-.068	2.073	5.260*	0.07

* = significant at .05 level