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Edited by

Alan E. Singer

University of Canterbury, New Zealand

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‘Ethics’ is now a considerable part of all debates about the conduct of public life, in government, economics, law, business, the professions and indeed every area of social and political affairs. The ethical aspects of public life include questions of moral right and wrong in the performance of public and professional roles, the moral justification and critique of public institutions and the choices that confront citizens and professionals as they come to their own moral views about social, economic and political issues.

While there are no moral experts to whom we can delegate the determination of ethical questions, the traditional skills of moral philosophers have been increasingly applied to practical contexts that call for moral assessment. Moreover this is being done with a degree of specialist knowledge of the areas under scrutiny that previously has been lacking from much of the work undertaken by philosophers.

This series brings together essays that exhibit high quality work in philosophy and the social sciences, that is well informed on the relevant subject matter and provides novel insights into the problems that arise in resolving ethical questions in practical contexts.

The volumes are designed to assist those engaged in scholarly research by providing the core essays that all who are involved in research in that area will want to have to hand. Essays are reproduced in full with the original pagination for ease of reference and citation.

The editors are selected for their eminence in the particular area of public and professional ethics. Each volume represents the editors’ selection of the most seminal essays of enduring interest in the field.

SEUMAS MILLER AND TOM CAMPBELL
Centre for Applied Philosophy and Public Ethics (CAPPE)
Australian National University
Charles Sturt University
University of Melbourne
Foreword

Once in a great while an enterprising and brilliant thinker takes time out of his or her own research to put together a stunning anthology. This book, *Business Ethics and Strategy*, is an example of one of those occasions. Alan Singer has put together one of the most complete and outstanding collections of essays in strategy and ethics that I have seen in my long career as an academic. The essays and book chapters, all from previously published work in leading journals and collections, draw from the best thinking in two fields of academic and practice: business strategy and business ethics. To collect and balance these two disciplines, which do in fact overlap despite analyses to the contrary, is a rare and worthwhile endeavour. Moreover, each essay in this series is not merely outstanding in one of these fields; each presents a framework – a replicable mindset – that organizes and orders the discussion to give us new ways of analysing and thinking about important issues in these management disciplines.

This collection is more than merely the sum of its parts. Professor Singer has written a brilliant Introduction that raises a series of questions about the often dualistic antithetical theoretical mindsets in which strategy and ethics are formulated. While framing these mindsets in terms of a series of dualisms may be a bit of an exaggeration, this technique serves to focus and force a careful analysis of each essay in the context of the others. In the end, it may be that the rhetoric of dualism pushes our minds into silo mentalities without introducing how there is in fact a great deal of overlap between ideas and points of view. If business education is to advance so that we are truly educating practising managers, that overlap is critical if, in the future, we are to avoid moral disasters in which well-meaning, well-trained, or even religious, managers engage in activities in business that they would never countenance in their personal lives. But, by setting out these disciplines as dualisms, the territory of disagreement is made clear and opens the way for future thinking that, as Singer suggests at the end of his Introduction, ‘spans the dualism[s]’ just as we, as human managers, do in our work and life environments.

PATRICIA H. WERHANE

*University of Virginia and DePaul University*
Introduction

This two-volume collection is intended as a reference for those interested in the relationship between business strategy and business ethics, broadly conceived. In bringing together selected essays from various journals in management, strategy and ethics, it is hoped to make a further distinctive contribution. Many researchers tend to focus on just one of these streams. For example, in the Strategic Management Journal and Academy of Management Review there are just a few references to Business Ethics Quarterly, yet many philosophers who are interested in managerial and economic questions regard the latter as the flagship business ethics journal. Another possible contribution of this collection lies in the identification of the 16 interrelated themes (see ‘About this Collection’, p. xxiv below).

Most readers will start out with their own ideas about the central issue of business ethics in relation to strategy. For some, it all boils down to the stakeholder versus shareholder debate (see Part VI); for others, it is all about reducing corruption in practice (see Part XI); still others see that this relationship is precisely what is being analysed in formal game theory and its interpretations (see Part VIII). In addition to these ideas, some researchers have proposed specific conceptual frameworks for integrating business strategy and business ethics per se (see Part I). However, no previous review or collection has brought even these frameworks together, whilst none of the frameworks themselves resembles the overview of the subject provided by this collection.

A Dualism

Throughout any study of the strategy–ethics relationship, it is well worth reflecting upon a basic and pervasive binary division or dualism. One might start by recalling a poignant scene from the popular James Bond movie Tomorrow Never Dies in which a British naval officer throws a single switch from ‘peace’ to ‘war’. There is no middle ground. It is often said that business and ethics is just like that switch: strategy is associated with war (Sun Tzu’s Art of War being the classic text), whilst ethics is broadly associated with peace – that is, goodwill, love, harmony and human rights. Put differently, strategy is for winning and for the powerful, whereas ethics is for helping and caring for others. Perhaps, as Nietszche thought, it is for the weak and the losers. It often seems that the entire literature about business ethics and its relationship with strategy can be read as a vast elaboration of this underlying dualism.

It has certainly been cast and recast in many ways. The 60 essays collected here, like all written contributions in the area, are structured around just a few components of the dualism, sometimes spanning the two sides with additional themes (see ‘Spanning the Dualism’, p. xxi). The main components involve values, ethical theories, forms of rationality, limitations of market-based systems, political leanings, issues of timing (that is, ethics now versus later),

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1 The work on this book was carried out while I was the JL Aram Professor of Business Ethics at Gonzaga University, USA
alternative systems (that is, shareholder versus stakeholder), individual versus collective moral agency, use of language, as well as perceived macro-trends (that is, moral progress versus regression). Each of these is briefly described below, with reference to several essays in this collection and some additional works.

Values

Most people can agree that the set of all human values can be partitioned. On one side lie values associated with efficiency, craftsmanship and free exchange. The other side, or subset, involves distributive justice, care, avoidance of harms and the protection of human rights. However, when a person is presented with a forced choice (in other words, when one set must be given priority and translated into everyday practice), then the slightest differences in character, or disposition, or even the mood of the moment can precipitate a preference for one set of values over the other.

The former set of values are embodied in what Amartya Sen (1987) has called the ‘engineering view’ of economics. They are often associated with masculinity and the male gender, whereas the latter are ‘female’ (see, for example, Dobson and White, Chapter 50). Many other concepts relating to strategy and ethics involve a distinction based on values or associated with gender. With regard to property, for example, the notion of ownership in some cultures directly confers a duty of care. Munzer (1990) described a North American indigenous tribe in which ownership of the canoe conferred a duty to ferry all strangers across a river, for free. Thus, property can be a relationship of care and need not be associated with any type of exchange. With regard to freedom, some people associate the engineering values with positive freedom or the realization of potential. Indeed, this link is made explicit in the stated mission of the Microsoft Corporation. Others, or the same people at different times, have claimed a significant lack of freedom in market systems due to their inability to pay. A good example is when a person is dying a painful death but life-saving drugs are amongst the unaffordable market ‘offerings’ (see Parts III, XII and XIII).

Ethical Theories

In almost every textbook on business ethics, together with several recent strategy books, there is an account of the main ethical theories or forms of ethical reasoning or pathways towards ethics in business. When these are applied to business issues, it is once again helpful to think in terms of a partitioning of the set of ‘theories’ and ‘forms’. On the side of profit maximization and shareholder wealth creation (the same side as efficiency and so on), one finds the basic economic principle of aggregate utility maximization achieved through free exchanges governed by market prices. Here, one also finds ethical egoism, whereby the morally correct action is argued to be that which best serves the interests of the actor. In addition, most aspects of contractarian ethical and political theory can be placed on this side, because the idea of agreements amongst free self-interested individuals is placed at the core of that theory, although there is also an emphasis on deliberative rationality and the related forms of justice.

On the other side of the dualism, one finds ethical theories that emphasize some form of care and stewardship. Utilitarianism is located here, because it prescribes consideration
of the expected costs and benefits to all the affected parties, as does the multi-stakeholder and multi-fiduciary view (see Part VI). Deontological ethics also belongs here. In this case, the rightness of an action or strategy is established with reference to the inherent logic of the system. This approach – particularly the derived imperatives such as Kant’s golden rule – reveals that deontology, or ‘Kantian capitalism’ as it is sometimes called, is in profound tension with the more ruthless elements of competitive strategy (on the other side of the dualism). Furthermore, it is sometimes intermingled with religious ethical doctrines, whereby the intrinsic qualities of any action are judged relative to divine laws. Recently, in the USA at least, the importance to business managers of religious ethics appears to have increased, at least with respect to issues such as discrimination in employment, health service availability, cause-related marketing and corporate philanthropy; however, this is very rarely mentioned in the strategy literature.

Rationalities

There also exist many distinctive forms of rationality, defined across the entire spectrum of the social sciences. Once again, the set of such ‘forms’ can be partitioned. The first subset specifically involves preferences and desires – that is, choices that are associated (in interpretations) with a generally narrow notion of the actor’s self-interest. The second set of rationalities involves higher-level meta-preferences – namely, some kind of reflection and deliberation on those lower-level desires, including considerations of how these fit in with the actor’s wider understandings and intuitions of a good life. There is an enduring controversy as to whether the latter ‘substantive’ forms of rationality can be captured by (that is, subsumed by, or analytically reduced to) the preference-based forms, at least for the purpose of business prescriptions. Many argue that they cannot be captured in this way because they involve elusive, but important, qualities that constitute the very essence of ethics, in business or elsewhere. This ‘rationality’ component of the fundamental dualism is alluded to in several sections of this collection (see Parts I, VII, VIII and XIV).

Market Limitations

The above distinction between preference and well-being is but one of several known limitations of market-based systems (KLMBS) that are identified in the economic tradition. These limitations include harmful preferences as well as negative externalities and monopolistic tendencies, but they also extend to the broader idea of social justice and its role as a mediator of the relationship between trading and human flourishing.

Business entities are often in a position to either exploit the various KLMBS or else to try to deliberately compensate for them. This distinction also constitutes a major component of the strategy–ethics dualism. Dennis Quinn and Thomas Jones (Chapter 5), for example, observed that ‘[t]he strategic management literature turned the insights of industrial organization [I/O] economics upside down by proposing that exploiting and even developing market barriers are a legitimate corporate strategy’ (I, p. 98). Put differently, ‘strategy’ prescribes creating wealth for a particular set of shareholders in ways that arguably damage the overall system, whereas ethics involves removing or overcoming those barriers in order to improve overall efficiency and to create opportunities for others (that is, the exact opposite of strategy). Previously,
Boddewyn and Brewer (1994) had also underscored this ‘upside-down’ aspect of strategy when they wrote that ‘[b]eing able to ... deny... benefits to others, by raising barriers of entry and mobility, is a real source of competitive advantage’ and that ‘securing such advantages, requires political competences’ (see also Part X). At that time, they appeared to consider it as a quite natural state of affairs that business corporations would seek government endorsement of anti-competitive strategy that knowingly ‘denies benefits to others’. In considering the ethics of all this, Quinn and Jones observed that I/O economics, on which much of the mainstream theory of strategy is based, ‘is...unconcerned with rights’ (I, p. 98). Although they did not say it, it also seems unconcerned with making markets less concentrated. At stake, however, is an important issue that some see as central to strategy and ethics—namely, it is conceivable (but far from proven) that the extra competitive energy created by making market power legitimate in the global economy actually pays off for everyone in the long run, due to the aggregate wealth produced. There is no formal and enduring empirical evidence on this point (nor on several other crucial questions in this area, as discussed in Parts XIV and XV), yet many defend market power and corporate political power by pointing to the aggregate wealth produced in the USA, where such strategies are commonplace.

Political Leanings

The article of faith that favours this heavier type of competition is closely associated with right-leaning politics that tends to champion the powerful. Compared to the political Left, the Right (conservatives, neo-liberals and libertarians) gives relatively more weight to economic freedom in government policy and business decisions. ‘Freedom’, here, refers to minimal government constraint on business and the use of prices to allocate all resources. The Left (liberal-democrats, social-democrats and socialists) places more emphasis on the freedoms made possible by distributive justice, care-based ethics and the maintenance of communities (variously conceived), seeing that these enable people to realize their potential. The Left also tends to favour social policies based more directly on available scientific understandings (see Part V).

This political component of the business ethics–strategy dualism is most clearly apparent in relation to environmental ethics. Julian Simon (1999) for example, forcefully expressed a faith in peoples’ ability to eventually solve all environmental problems, provided only that economic freedom is maintained (that is, legislation minimized), so that innovativeness and dynamism abound. Others insist on specific legislation, at many levels, to prevent direct harm in scientifically determined senses (for example, with regard to biohazards, food stocks and so on). This latter position is closely associated with the stakeholder model of strategy and the related stewardship model of corporate governance (see Parts VI and VII), but specifically with a viewpoint that sees the natural environment as a silent stakeholder of corporations.

Timing

All of the above components of the dualism can be recast as a partitioning of time: strategy now with ethics later. Put differently, in the chain that alternately links means to ends, ‘strategy’ is thought to provide the means to achieve wealth, thus enabling ethical ‘ends’, such as redistribution or restoration, to be pursued later. This recasting of the dualism is in
fact quite commonplace. For example, entrepreneurs in the start-up phase typically regard financiers and customers as their only relevant external stakeholders (see Part VII), but in the mature stages of business and life, other non-market groups often become more important. A related phenomenon was described long ago by the economist Frank Knight (1936) who observed that unethical business is more likely when competitive intensity is very high, or else when it is too low due to excessive power or undue secrecy (a phenomenon also described in Plato's *Ring of Gyges*).

This ‘timing’ explanation of ethics and strategy also matches the personal life story of those who seem willing to do almost anything to gain wealth, until they reach mid-life, when they reform and take on social, philanthropic or political missions (Sir James Goldsmith was one such example). Finally, the appealing idea of ‘strategy now with ethics later’ also parallels the theological notion of sin now with confession and redemption later. Unfortunately, however, in the secular world, ‘sin’ has a tendency to multiply until a major disruption occurs.

**Systems (Stakeholder and Shareholder)**

Several components of the foregoing discussion can be brought together into dual descriptions or visions of the business ‘system’. In a hypothetical System 1, stakeholder relations are viewed as a means to create shareholder wealth, and the strategy is competitive or hyper-competitive. Here, NGOs are viewed as a kind of worthy opponent, even though temporary alliances might be expedient. In this system, governments are lobbied in pursuit of narrow interests, irrespective of the public interest (see Part X and the above discussion of market limitations). Accordingly, NGOs and governments adopt an adversarial mode towards business. Meanwhile, as long as ethical activity, or even the appearance of ethical activity, is thought to serve important commercial goals, such as meeting ethical investment funding criteria or assuaging an angry public, it might still be undertaken as a commercial tactic (see Part XV).

By contrast, in System 2, productive strategic entities have authentically mixed motives, including some that match the goals of NGOs. Accordingly, the entity might lobby ‘strategically’ for stronger safety and environmental laws or for fairer health and social security laws, because these are intrinsically valued by management or shareholders. Such changes knowingly risk reducing profit, but the managers believe they can protect themselves from dissenting shareholders by arguing that the strategy is at least consistent with commercial goals (see below). In this business system, NGOs and governments can then be genuine partners in a joint strategic and ethical mission.

A concrete variant of System 2 exists when it becomes enshrined in a legal framework (at various levels of jurisdiction) – for example, a requirement for triple bottom-line reporting or for entering into good faith dialogues with key stakeholders or for a specified minimum level of corporate philanthropic activity. Some systems currently concede the latter, so long as the above mentioned ‘consistency’ with commercial goals can be claimed. More importantly, future business legal systems might one day require productive strategic entities to pursue moral–strategic commitments in specific social circumstances, even if these commitments temporarily harm profits (see Margolis and Walsh, Chapter 53).
Moral Agency

In discussions of the way things ought to be, the difference between System 1 and System 2 has often been linked to the philosophical question of collective moral agency or collective moral responsibility. Milton Friedman (1970), for example, famously linked his claim that ‘the social responsibility of business is to increase its profits’ (that is, System 1) to the idea that ethics and morality are exclusively qualities of individuals, not companies. Business entities, he wrote, are simply legal abstractions. So, the argument goes, the very idea of a business behaving ethically does not make sense. Many others (for example, Pruzan, Chapter 51; French, 1984) have argued to the contrary, attempting to establish a technical case for collective and corporate moral agency.

The issue of moral agency raises yet another point of disagreement concerning its own perceived importance. Some see the agency concept as crucial to any theory of strategy and ethics: if one can indeed establish the notion of a collective moral agency, then the ‘invisible hand’ argument is seen to be profoundly inadequate. Others feel that the moral agency issue is nothing more than a technical abstract distraction. For example, in any real system there will always be influential individuals who can decide whether or not to act deliberately in ways that compensate for the known ethical limitations of the system.

Language

The several published frameworks currently available to facilitate strategic analysis and to guide ethical decision-making in business all function to some extent as tools of persuasion. Indeed, some of those frameworks have plainly been designed, produced and literally sold in the hope that they will enrich their producers. The underlying idea is that a set of distinctive narratives about strategy will compete for attention in a marketplace (the knowledge economy). They do not necessarily have to express any other form of truth (see Part VII). Accordingly, in Part II of the collection, M. Ali Kahn (Chapter 6) discusses the ethics of ‘theorizing in economics’.

The same underlying idea also points to another little-noticed component of the dualism: the dual use of English vocabulary in ways that exemplify transvaluation (that is, good becoming bad). For example, the term ‘value-based management’ usually refers to strategies for creating shareholder wealth (that is, the first set of values mentioned earlier), but it has also been used to refer, perhaps more obviously, to the care-based values embodied in the stakeholder or stewardship models. Similarly, in the lexicon of strategy, the term ‘deconstruction’ refers to the fullest possible deployment of digital technologies and use of outsourcing, regardless of any stakeholder harms caused. However, the original academic usage referred to the stripping away of cultural assumptions from literary works – an idea traceable to the philosopher Martin Heidegger who also contributed to Nazi ideology. As a final example, in Part XII of the collection, Ronald Hill (Chapter 44) uses the term ‘mobility barrier’ to describe sympathetically how poor people in the USA can’t afford to travel out of their neighbourhood in order to pay the lower prices available in more affluent districts. Thus, the poor pay more. In strategy, the very same term, ‘mobility barrier’, refers to industry conditions that prevent a business from changing its strategy to become more profitable.
Trends

The final component of the dualism, but by no means the least important, involves forecasts and backcasts of long-term social and political macro-environmental trends. One might think that at least the historical part of these trends would be beyond dispute – a purely empirical matter. However, on all the main issues that have the potential to really inform the relationship between business ethics and strategy, the empirical evidence remains highly ambivalent. Is corporate social performance positively or negatively associated with financial performance? Do corporate tax reductions normally result in increased total tax revenues, due to an incentive effect? Has world poverty actually increased or decreased in the last 30 years, under the new capitalism? The answers to all of these questions remain essentially a matter of political opinion rather than established scientific fact.

Accordingly, the more optimistic observers (for example, Godlovitch, 1999) see an underlying long-term trend of moral progress whereas pessimists see a deterioration or moral regression. For example, Hosmer and Chen (2001, p. 609) described ‘a definite movement ... towards an expanded view ... that includes the recognized interests of other persons’, at least in economic theories of rational decision-making. It seems worth recalling that fully 25 years ago, Kenneth Goodpaster (the first appointee in Business Ethics at Harvard Business School) claimed in his video on Ethics in Management (1984) that there was, at that earlier time, ‘an evolution of thinking in the executive suite’, with executives asking ‘what ought to go on’. More recently, in 1995, George Ritzer (Chapter 21) wrote that the social forces of empowerment, green feminism and postmodernism are all pushing towards increased corporate responsibility. Then, again, Jeanne Logsdon and Donna Wood (Chapter 11) predict that ‘as pragmatic pressures mount for human rights protection, global corporations are likely to join the ranks of enforcers, if for no other reason than to stabilize [a] ... turbulent, unpredictable global environment’ (I, p. 185).

Twenty-five years later, what has gone on? Many corporate executives are preoccupied with data security and physical security, the Enron scandals have taken place, corporate philanthropy in the USA has become increasingly ‘strategic’ rather than altruistic (see, for example, Saia, Carroll and Buchholtz, 2003), whilst the human rights situation appears to be mixed, at best. This might be because totalitarian regimes are also very good at stabilizing their environments (see, for example, MacPherson, 1985), or perhaps it is due to the fact that countries with sudden major inflows of investment by multinational corporations (MNCs) are prone to increased corruption (see Robertson and Watson, Chapter 40). Meanwhile, within corporations, many workers find the contemporary ‘evolved’ corporate cultures to be demeaning rather than empowering (see, for example, Sennett, 1988).

Spanning the Dualism

As mentioned at the outset, there are several additional recurring themes that span the strategy-ethics dualism. These inform both sides and, in some cases, imply a unification or synthesis. They include psychological themes such as human character, virtues, emotions and intentions, as well as philosophical issues such as the substance and the effects of abstract ideas. In addition, there are several practical issues relating to the implementation of strategy and ethics in organizations.
Character

As mentioned earlier in connection with moral agency, the philosophy of virtue ethics places emphasis on the character of the individuals involved in a business activity (see, for example, Solomon, 1999). This branch of ethics spans the dualism because character and motives are seen to determine which set of values is most prominently embodied or expressed in any given business strategy. The motive to excel is quite prominent in virtue ethics. MacIntyre (1981) noted in particular that a business can be viewed as a 'practice based community that sustains excellence', or as 'a purely technical means to profit'. Both these views align mainly with the first set of value-priorities, mentioned in 'Values' above (efficiency, craftsmanship and so on). However, virtue ethics also sees that a caring attitude or a commitment to human ideals is a matter of personal character. It is noted that moral persuasion aimed at encouraging the adoption of any given set of values typically has little effect. Indeed, instructions to care often produce an angry psychological reaction, with an accompanying movement away from caring. On the other hand, individuals' motives are partly extrinsic and hence determined by the wider political and institutional environment that business plays a large role in shaping.

Intention

The earlier discussion of timing, which alluded to the ‘chain’ of means and ends, presupposed that human intentions actually have some effects, whether they be noble or evil, strategic or ethical. In other words, it was assumed that free will exists so that events are not entirely determined by chance, necessity, fate or the deities. Some religious texts, in contrast, carry the message: ‘make your plans; they will fail’. Theories of business strategy and ethics both attach great importance to having explicit managerial goals and intentions, together with methodologies for implementing any given plan (see Part XVI of this collection). However, it is also recognized in these theories that the outcomes of a plan or a project might not match those intentions. In the strategy literature, in particular, a distinction is drawn between intended strategy, an emergent part of strategy (that is, unforeseen circumstances and spin-offs), a ‘realized’ part (that is, what becomes real), and an ‘unrealized’ part (that is, failed plans). In ethics, on the other hand, Kant emphasized only the first of these: the quality of human intentions. To be ethical, he argued, a plan or strategy must be based on genuine and authentic goodwill towards others. This means that whether a project succeeds is a question of lesser moral significance. In business strategy these priorities are often reversed.

Emotion

It is sometimes said that the theory and practice of business strategy is based exclusively on reason, with a binary means–ends logic (see, for example, Calori, Chapter 27). Ethics, in contrast, is emotional. Nevertheless there are many important ways in which emotions can enter into strategy. For example, strategy often involves emotions associated with the pursuit of forms of power (market, political or military). Also reason and ethics are very far from being incompatible (see Parts I and VIII).

The implied ‘2 × 2’ matrix of relationships involving strategy, ethics, rationality and emotion has a long history as a discussion point. Plato, for example, identified a megalothymic passion
for power and wealth, as well as an isothymic passion for justice, or ethics. More recently, Francis Fukuyama (1992) noted the importance of *thymos* in contemporary business. He also broadly criticized the neglect of Hegel in management theory (no doubt due to an association with Marxist thought), whilst recalling the Hegelian idea that ‘man’ must ‘risk his life’ in order to satisfy the ‘thymotic’ part of his soul. Currently, the role of emotion and intuition is again being taken more seriously in micro-economic research, particularly in the nascent field of neuro-economics.

**Synthesis**

The idea of a synthesis of opposites (for example, strategy and ethics) is, of course, also prominent in the neglected philosophy of Hegel. In fact, many contemporary contributions in the area of business strategy have advanced the related idea of a complementarity and synergy involving components of the dualism, although Hegel’s works are very rarely mentioned in this context.

For example, LaRue Hosmer (Chapter 36) evoked classical prescriptions that a person should act for a *mixture* of short-term gain with their vision of the future (Protagoras), or sense of self-worth (Aristotle), or goal of community (St Augustine), or calculation of social benefit (Mill), or understanding of universal duty (Kant), or recognition of individual rights (Jefferson) and so on. A similar mixture of economics and ethics was also, of course, implicit in the dual works of Adam Smith: *The Wealth of Nations* and *The Theory of Moral Sentiments*. More recently, John Dobson (Chapter 10) has noticed that the ‘technical’ view of the corporation, which is broadly linked to the first set of values, can coexist with the view of the corporation as a moral community. For example, technocratic MNCs can work with caring NGOs in ways that benefit both. Many others have noted similar prospects for win-win strategies (for example, Rugman and Verbeke, Chapter 18; Shrivastava, Chapter 20).

Accordingly, several theoretical frameworks have been proposed that involve synergy or complementarity amongst abstract constructs, such as organizational cultures or collective rationalities (see, for example, Ritzer and LeMoyne, 1991; Singer, 2007 and Chapter 3). At the level of whole economies, Sen (Chapter 9) emphasized in particular how ‘business principles and moral sentiments’ must operate in combination, jointly determining economic and social outcomes. Indeed, the importance of this combined effect, he says, ‘cannot be overemphasized’.

**Persuasion**

Finally, we briefly revisit the several forms of truth, alluded to in the earlier discussion of ethical trends. McCloskey (1998) wrote that ‘even the hardest of the social sciences employs rhetorical techniques’ and ‘persuasion is the key’. Accordingly, the entire literature in this area is crammed with persuasive assertions and stories (for example, Freeman, Chapter 23) most of which have only selective or partial empirical support. As a result, claims of moral progress in business can often be read as if they were really recruitment appeals: ‘join our ethics movement and go with the flow’, so to speak. Claims of moral regression, on the other hand, also read like appeals for urgent action at the political level in order to reverse the disturbing trend, or to avoid the next apocalypse.
This contrast between fact and rhetoric is at the heart of a controversy about the substance of ideas in this area versus their educational effects. In Part VIII of this collection a particular controversy of this type is reported in connection with formal game theory and business education. About 20 years ago, Etzioni (1988) commented on the ‘mis-education’ of students of economics. Prior to that, a stream of anti-economics literature persistently challenged the economic way of thinking, in part due to its alleged effects on vulnerable young minds. This stream has had only a very limited effect on the ground (for example, Coleman, 2002). The contemporary literature on business ethics and strategy covers a great deal of similar terrain, but in a rather different way. Its effects remain to be seen.

About this Collection

The 60 essays in this two-volume collection were all chosen with the above fundamental ‘dualism’ in mind. They were then separated into 16 Parts, or themes, as follows:

- Part I: frameworks that explicitly integrate business strategy and business ethics
- Part II: economics and the ethical aspects of economic theories
- Part III: globalization and the notion of the corporation as a global citizen
- Part IV: market limitations and the ways in which business strategies can respond to them,
- Part V: green business strategy and the environment
- Part VI: stakeholder theories and management orientations
- Part VII: models and the apparent need to choose amongst various distinctive conceptual and formal models
- Part VIII: game theory and its interpretation
- Part IX: trust, trustworthiness and trust-building in business
- Part X: lobbying and corporate citizenship
- Part XI: corruption in relation to strategy
- Part XII: poverty and how it affects, and is affected by, business activity
- Part XIII: knowledge and the ethical issues associated with intellectual property
- Part XIV: systems or various holistic approaches to thinking about the strategy–ethics relationship
- Part XV: performance – that is, evidence about the link between measures of corporate social and financial performance
- Part XVI: implementation or ways of implanting ethics and strategy in organizations.

Frameworks (Integrative Frameworks)

The essays in Part I set out conceptual frameworks that specifically integrate business strategy with business ethics, either holistically or else in terms of some selected aspects.

The opening essay by Christopher Robertson and William Crittenden offers an example of the general correspondence thesis, in which various concepts in ethics are placed relative to the categories used in strategic management. In this case, the emphasis is on describing the ‘social
and economic macro-environment'. The authors construct a mapping of ‘moral philosophies’ onto a ‘framework for assessing socioeconomic environments’. They also develop this into a ‘cross-cultural, macro-level model of societal ethics’ (1, p. 3). It is intended that managers should use their model in order to assess the implications of cultural factors for commercial and social performance.

In Chapter 2 Scott Reynolds offers another example of a framework based on correspondence. In this case, the particular strategy concept of integration is placed relative to the ethical concept of justice, whilst the strategy concept of ‘responsiveness’ is likened to the ethical concept of caring. Reynolds notes specifically that, in any situation, ‘there are behaviors [options] that are both integrative and just and/or both responsive and caring’. Such behaviours, it is suggested, are therefore ‘both strategic and ethical’ (1, p. 11).

‘Integration’ in this context refers to a corporate strategy in which a business unit in a foreign or host region is encouraged to engage with the local community and institutions. It can be contrasted with a more detached global strategy in which business unit involvement with external entities other than the parent corporation is deliberately minimized. ‘Responsiveness’ specifically refers to making adjustments to product features, marketing tactics and terms of employment that reflect the local situation in a host country, as opposed to having a uniform global market offering, or using the same management practices everywhere.

According to Reynolds, integration is in fact a form of justice, whereas responsiveness is a form of caring. More generally, if one thinks of integration as a willingness to accommodate another’s position, a further link with justice can be identified via the dualism. A relationship based on exchange (utility, rationality as preference) contrasts with an engagement that involves dialogue, reflection and deliberative rationality.

In an essay entitled ‘Strategy as Moral Philosophy’ (Chapter 3), Alan Singer sets out a comprehensive mapping between distinctive defined forms of rationality (a rationality set) and a set of corresponding concepts in theories of strategy. The ‘economic rationality set’, which is a subset of the rationality set, plainly informs mainstream strategy. In other words, many principles of strategic management flow quickly from that set. Accordingly, it has been asked whether other forms of rationality, particularly rational–moral principles, can or should do the same (see also Davis, Schoorman and Donaldson, Chapter 29). Put differently, there is a sense in which core elements of strategic behaviour are also moral principles. For example, expressive rationality (actions that express identity) and Kantian rationality (actions that accord with universalizable maxims) cannot be ‘easily’ captured as economic forms, so the corresponding strategy concepts also lie outside the scope of the mainstream economic theories.

A general theory of rationality that also encompasses moral behaviour and explains the relationships between the forms (that is, meta-rationality) then becomes a general theory of strategic behaviour and management. This approach is in the tradition of philosophical pragmatism and it yields many basic management principles encompassing ethics and economics. Singer suggests that empirical and conceptual progress in strategic management can also potentially advance ethical theory (see also Logsdon and Wood, Chapter 11).

Many treatments of business ethics and strategy start out by distinguishing between ethical, legal and socially acceptable types of behaviour. Although these categories overlap, corporate strategies and activities can be separately appraised with reference to all three types. Mark Schwartz and Archie Carroll (Chapter 4) develop a version of this argument when they identify
three ‘core domains’ of corporate social responsibility (CSR) as legal, ethical and economic. These domains are then depicted using a Venn diagram (that is, overlapping sets) which yields seven ‘categories’ of CSR. Various corporate activities are then classified accordingly.

This work is also pragmatic in that it is intended to help managers structure messy problems and stimulate new thinking about any given practical situation. At the level of theory, the use of ‘economic’ activity as a separate third domain is open to question, since economics and ethics can perhaps be more properly understood as different ways of thinking about the same domains of human productive behaviour. For example, one can carry out a detailed economic analysis of behaviours relating to marriage without mentioning an ethic of love and so on. In Schwartz’s and Carroll’s framework, however, the distinction between economics and ethics roughly corresponds to the fundamental ‘dualism’.

In Chapter 5 Dennis Quinn and Thomas Jones describe the relationship between business ethics and strategy in terms of logically necessary ‘priorities’. They derive a prescription for managerial ethical priorities from the inherent logic of ‘social systems that allow liberty’. Accordingly, their contribution is deontological in style but also develops some themes historically associated with Adam Smith (see also Sen, 1993). Quinn and Jones begin by arguing that liberty and the business system (that is, markets and the principle-agent relationship) both depend on four moral principles: avoiding harm, respecting autonomy, avoiding lying and honouring agreements. They then claim that, if managers are intending to act on behalf of shareholders, they must first attend to these four basic moral duties: in other words, shareholder wealth considerations can have priority only after those four moral obligations have been met. The authors also suggest, in the spirit of economic explanation, that ‘some diversions of firm wealth are [in fact] done to meet the [four] moral obligations’ (1, p. 100). That is, managers might sometimes be acting in accordance with the Quinn and Jones normative analysis, as if they understand the logic of a business system that depends on those four moral principles.

Perhaps the most controversial claim in Quinn and Jones (and indeed in Adam Smith) is that capitalism and corporations ‘logically’ require any type of moral foundation. Critics have long noticed that businesses can also flourish in undemocratic and oppressive states or ‘social systems’ where there is an abundance of harm. Furthermore, mainstream business practices plainly permit a degree of harm and violations of autonomy (for example, through unsafe products and coercive marketing methods).

Economics (Economic Principles and Ethical Strategies)

Part II contains essays by prominent economists who have considered aspects of research in economics in relation to business ethics. These aspects include the idea that the theories or discourses of economics (and ethics) can both be viewed as tools of persuasion or as weapons deployed in political struggles.

In this spirit, M. Ali Kahn (Chapter 6) considers the ‘ethics of theorizing in economics’ (1, p. 107) and, by implication, in much of business strategy. He notes that the producers of economic theories might themselves be self-interested and self-deceiving (assumptions often made about others within the theories) and he speculates as to whether this has actually effected the product. Kahn’s discussion of ‘the relationship between the theorist and the theorized’ (1, p. 107) is reminiscent of a earlier debate in psychiatry, in which therapists or
analysts were seen as part of the problem rather than the solution. More generally, Kahn’s timely essay reminds us about the subjective component of all descriptions of social systems, as well as the possibility that language, but especially corporate communication, can be a tool for achieving political and personal goals.

Kahn’s ideas might also be borne in mind when assessing Jan Narveson’s account of the ‘invisible hand’ argument (Chapter 7). ‘[T]he benefits of innumerable transactions, which are beneficial to both parties, is very great’, he wrote, particularly as ‘[p]eople use ... [what] they get in market exchanges in ways that benefit others in ways not at all foreseen ... at the time. These externalities range from the benefits of invention ... to the exercise of charity and philanthropy ... which flourish in developed capitalist societies’ (I, p. 125). Also, according to Narveson, ‘the morality of the market forbids only force and fraud; it does not require people to do good to others’ (I, p. 125).

This amounts to a persuasive argument for business as usual, but it is also a perspective from one side of the dualism. For example, people also use products and services in ways that deprive or harm others; whilst poor people neither ‘transact’ nor ‘benefit’ very much, in some developed capitalist societies (see Hill, Chapter 44). Also, the proposition that the ‘morality of the market forbids force’, confronts the fact that strategy involves the exercise of market power (not to mention the growth of private security-related markets). Earlier, Milton Friedman (1970) wrote that the ‘social responsibility of business is to increase its profits’, without resorting to ‘fraud and deception’ (as distinct from force). Like Narveson, Friedman also failed to acknowledge that deception is endemic in marketing; indeed Adam Smith first described how we are ultimately ‘deceived’ by preferences expressed in market exchanges.

The essay by Abagail McWilliams and Donald Siegel (Chapter 8) is an example of economics informing ethics, essentially by capturing some moral sentiments within the economic way of thinking. The theory of the firm in economics yields several hypotheses about the determinants and effects of corporate social responsibility (CSR). For example, the level of CSR of any business is hypothesized to depend on its stage in the industry life cycle (that is, in the early stages, financiers and customers receive all the attention, but this can change later). Also, an economically optimal level of CSR exists, which can be determined in practice by using cost–benefit analysis. Most importantly, the authors hypothesize that there is a neutral relationship between CSR and corporate financial performance. This seems consistent with several other studies (see Parts XIV and XV).

Although economics can inform ethics, the economic way of thinking does indeed, according to Amartya Sen (Chapter 9), downplay the role of ethics. Economists have often commented on the small effect of attempts at ‘moral suasion’. However, Sen criticises any tendency to ignore ethics, noting (as did Adam Smith) that ethical conduct can deeply influence an economy. For example, in Italy and Russia, corruption has had a large negative influence; whereas in Japan, great success has been achieved through business motives other than profit maximization. Therefore, it appears that business principles and moral sentiments (or culture, or ideology) operate jointly to codetermine economic outcomes.

According to Sen, the high level of diversity in contemporary global business has revived ‘the study of business principles and moral sentiments’ (I, p. 149), turning it into a rich source of understanding. Put differently, the study of strategy and corporate social responsibility can inform both economics and ethics. However, the ‘understanding’ needs to be thorough and complete. Sen particularly warns against the simplistic tendency to associate Eastern
values with economic success, just because Asian economies are temporarily outperforming the West. He also makes the extremely pertinent point that ‘rejection of a self centred life’ is not necessarily a good thing. It can sometimes imply promotion of group interests in ways that involve great violence and barbarity. However, this does not imply that individualism and amoral strategies are good enough, for business.

Globalization (Corporations as Global Citizens)

According to John Dobson (Chapter 10), the engineering view of economics, with its notion of the economy as a ‘wealth-creating machine’, remains the foundation of many World Trade Organization (WTO) policies (I, p. 167). An alternative or complementary idea of a ‘community of excellence’ is derived from virtue ethics. This is essentially the view adopted and propagated by the 30 000-plus NGOs currently in existence. If production can be thought of as a ‘virtuous practice’ by the people involved, then many ethical and social problems would be solved. For example, in this view, the primary objective of a fishing fleet would be to maintain a community, rather than make a profit, so it would not overfish.

In a capitalist system, the ‘machine’ and the ‘virtuous craftsman’ views can coexist. Consider, for example, the case of trading in financial derivatives. In the popular mind it is associated with extremes of greed (for example, the Nick Leeson – Barings Bank episode), but it can also be viewed as a type of communal activity, wherein ‘excellence’ involves analytic skill, strategic imagination and competitive intensity. These two views or cultures are distinguished, Dobson notes, by the particular characters and motivations of the people involved. However, it might also be acknowledged that life in a profit-oriented capitalist world, and especially exposure to capitalist media, can influence and shape those characters and motives.

In Chapter 11 Jeanne Logsdon and Donna Wood further develop the ‘correspondence’ thesis (outlined under ‘Frameworks’ above), in the context of a discussion of globalization. They place various strategy concepts in correspondence with selected ethical and political ideas and note in particular that the category of ‘citizenship’ has minimalist (libertarian), communitarian and universalist interpretations. The former is associated with ethical egoism and profit maximization. The communitarian version of individual citizenship then corresponds to a multi-domestic corporate strategy, in which ‘the prime directive’ is to conform to local (community) practices. Finally, a ‘universalist’ notion of citizenship corresponds to corporate strategies of global integration. Accordingly, whenever internationalization strategies are appraised, there is also an implicit consideration of expanding benevolent business citizenship, from local to global. For example, in the choice between multi-domestic versus global corporate strategies, worldwide human rights are very much at stake, not just commercial performance.

John Boatright (Chapter 12) considers how the phenomenon of globalisation per se affects or mediates the general relationship between business and ethics. First, he contends, globalization tends to enhance the power of NGOs, because they can now also go global, as, for example, by promoting the global ‘no sweat’ logo used to combat sweatshop abuses. Globalization also increases the potential effectiveness of ‘market solutions to ethical problems’ (I, p. 213). For example, the reforms mandated by global financial institutions such as the World Bank and the IMF have not only effectively attacked the problem of corruption but have also encouraged a market demand for transparent accounting standards.
In essence, Boatright, in common with many other scholars, sees that globalization is supporting and strengthening System 1, as described earlier in this Introduction. Accordingly, Milton Friedman’s notion of ‘capitalism without fraud’ can potentially be achieved on a global stage. Powerful NGOs will act as constraints on corporate behaviour and perhaps on their profits (see also the discussions under ‘Systems’ and ‘Performance’ below). However, a view from the other side of the dualism sees that globalization might also amplify the known limitations of market-based systems, such as exclusion due to inability to pay, or a sense of alienation from the system. On this point, Boatright agrees with Dobson that the ethics of business are determined by the moral values that individuals bring to their jobs, but also sees that ‘business as a whole plays an active role’ in creating the ‘rules of the game’ (I, p. 210).

In Chapter 13 Jane Collier expands upon the known limitations of global markets, emphasizing the imperative to preserve ‘the basic human dignity of those disadvantaged by [globalization]’ (I, p. 215). She is particularly concerned about the strengthening of intellectual property regimes (IPRs), with their implications for distributive justice (see ‘Knowledge’, p. xli below). Current IPR regimes do very badly on the second set of ‘values’, such as care, distributive justice, human rights and community, so they have resulted in anger amongst many of the adversely affected groups.

In some cases, farmers have been unable to grow their own traditional crops without first buying a licence from the company which has patented that variety of seed. Similarly, companies in poorer countries have been prevented from manufacturing local traditional medicines. These situations are part of a more widely contested issue – namely, the nature of property rights in general and the corresponding forms or variants of capitalism. For example, in ‘local’ housing markets, individuals compete with wealthy global buyers and are sometimes forced to leave their traditional communities. Accordingly, Collier asks, ‘...whom can we [now] trust to care for the global “common good?”’ (I, p. 218). Our best hope, she suggests, are international organizations like the WTO, together with national NGOs such as the Ethical Trading Initiative in the UK (see also ‘Implementation’, p. xlvii below). However, the WTO and national governments have so far shown rather more concern about the ‘anger’ expressed by corporate lobbyists about the undermining of corporate profits and brands as a result of IPR violations such as copying and counterfeiting.

**Market Limitations (Strategic Responses to Market Limitations)**

In harmony with the latter observation, Prakash Sethi (Chapter 14) notes that voluntary social responsibility by corporations ‘plays a rather small role’ in improving society (I, p.223). He generally endorses the System 1 description of the corporate environment, but sees that some corrective mechanism is also needed in order to overcome two particular limitations of that system: the exploitation of market power by corporations (monopolistic tendencies) and the lack of any guarantee of distributive justice.

Accordingly, Sethi recommends that ‘corporations should be held accountable for a more equitable distribution of [their] above-normal profits with other groups’ especially where those groups ‘were deprived … because of market imperfections and corporate power’ (I, p. 223). In other words, we clearly need a global legal regime that can systematically compensate for the known limitations of market-based systems discussed above. However, corporations are
rather unlikely to adjust their strategies voluntarily in order to achieve that outcome, although that remains a possibility.

Cengiz Haksever, Radha Chaganti and Ronald Cook (Chapter 15) reframe and reinforce the latter idea of corporate actions aimed at overcoming the limitations of the system, when they explain how the decisions of corporate managers can create value for some stakeholders, whilst at the same time destroying value for others. In this essay, they set out an elegant and distinctive model that not only involves both financial and non-financial ‘values’, but also takes into account the issue of timing (see ‘Timing’, p. xviii above).

In Chapter 16 Alan Singer develops the idea that corporations might indeed consider augmenting their strategies in order to overcome the limitations of markets, possibly with a view to pre-empting the kind of compliance mechanisms advocated by Sethi in Chapter 14 or possibly because some managers authentically wish to overcome those limitations (as in System 2). Singer argues that corporate strategies and communications can be augmented in several specific ways. These involve philanthropy and tax practices; human resource policies, particularly with regard to unions; deliberately disrupting winner-take-most markets; managing IPR in a balanced way; and environmental engineering and positioning. He then sets out a strategy framework and applies it (from a distance) to a well-known Japanese company that has a clearly expressed, but apparently incompletely implemented, social mission. He also considers some related cultural and ideological aspects of strategy.

**Environment (Green Strategy and Environmental Policy)**

The essay by Ken Starkey and Andrew Crane on green business strategy (Chapter 17) casts the strategy–ethics dualism in terms of competing ‘narratives’. The authors also express concerns that: first, modern organizations ‘privilege’ profitability and marginalize concerns about living systems; second, management thinking is based on ‘mechanistic’ beliefs and values; third, business practices contribute significantly to ecological problems; fourth, modern biology can inform strategy on matters such as reciprocity, environmental interdependence and the value of collaboration; and, finally, business entities are currently the architects of a new evolutionary course, because life-forms are being altered ‘in the service of technology and economy’. Finally, they suggest (like many others before them) that ecological understanding can be an impetus for change. It might be argued, however, that, by casting the science of ecology as a ‘narrative’, their account becomes less persuasive. If science is a story, why not choose another one: apocalyptic theology, for example? Accordingly, there seems to be a need for a meta-narrative (see, for example, Werhane, 1999) telling managers how to work with all of the ‘narratives’: the secular and the sacred, or strategy and ethics.

In Chapter 18 Alan Rugman and Alain Verbeke examine global environmental regulations and their likely influence on corporate strategy. These regulations exist at five levels – the WTO, the EU, national, subnational and municipal. They then go on to describe four business strategies: static conflict – that is, compliance with polluter-pays laws; dynamic conflict – that is, trying to minimize, over time, the negative impact of regulations on profit: static complement – that is, designing win–win synergies: and dynamic complement, such as lobbying to tighten environmental standards in order to foster firm or local–industrial competitiveness. According to the resource-based view of the firm, the latter strategy, whilst much discussed, will only
work if the newly developed capabilities of the firm are valuable, non-substitutable and hard to imitate.

Multinational enterprises (MNEs) generally need to consider all five levels of regulation. At the level of nations, one approach is a national ‘strategic environmental policy’ which refers to the upgrading of all the main sources of national advantage, such as encouraging citizen-consumers to go green. However, this approach is not very common. One reason, according to Rugman and Verbeke, is that if such a policy were adopted by a small nation, MNEs based in that country would simply increase outward foreign direct investment (FDI).

A second framework then classifies environmental strategies in terms of weak versus strong capability-development and low versus high levels of flexibility. Lobbying for tighter standards while developing greener technologies (for example, BMW’s ‘design for disassembly’ initiative) is ‘a green gamble’ — that is, high on capability, low on flexibility. Programmes like 3M’s Pollution Prevention Pays (PPP), Dow Chemical’s Waste Reduction Always Pays (WRAP) and Chevron’s Save Money And Reduce Toxics (SMART) programmes are more ‘flexible’.

In a commentary on Rugman’s and Verbeke’s essay John McGee (Chapter 19) begins by setting out the (UK) historical background to the wider corporate social responsibility (CSR) debate which, by implication, seems to have been overlooked in the American business ethics literature. He notes that the concept of trustee management and the quality-of-life (QOL) movement long ago stressed the importance of considering the material, social and psychological experiences of all business stakeholders. Since the 1970s it has also been widely accepted that business strategy formulation should involves some analysis and evaluation of public policy, in addition to the market.

McGee then notes that the above Rugman and Verbeke essay does reveal new aspects of environmental strategy, particularly the information overload caused by the many levels of regulations, the path-dependency of strategy, in the sense that the current resources of any firm can constrain its ability to adopt green strategies, and the notion that geographical diversification might be a strategic response to environmental regulations. He then asks whether existing theories of strategy can be augmented to incorporate these ideas or whether in fact an entirely new paradigm is needed, as indicated by Starkey and Crane in Chapter 17.

Finally, McGee takes a clear position on the ‘efficiency’ side of the dualism by claiming that a ‘proactive social responsiveness mode of operating’ would encourage managers to ‘focus on distributive equity rather than micro-level efficiency’. However, empirical studies show no significant loss of financial performance (see Parts XIV and XV), whilst a ‘proactive mode’ might simply protect moral minima and encourage a focus on the design of win–win synergies (see, for example, Kuttner, 1984).

In Chapter 20 Paul Shrivastava develops the ‘false choice’ thesis further by describing specific ways in which environmental technologies can be used to gain competitive advantage. These technologies include designs, production equipment, methods procedures and delivery mechanisms that ‘conserve energy and ... protect the natural environment’ (I, p. 319). He notes that environmental technologies can affect the value chain at many points and are sometimes capable of providing firms with cost and quality advantages. Although many see a broad tension (or dualism) between commercial strategy and the natural environment, these technologies can be deployed to achieve synergies. In some cases, their deployment is already
indicated by existing mainstream strategic management models, such as value chain analysis and the input–throughput–output model of the firm.

Finally, George Brenkert (Chapter 21) also considers several ways in which ‘business might be part of the solution’ to environmental problems (l, p. 335). In line with the moral suasion argument, he notes that a moralist model, in which corporations voluntarily act as if they were moral agents, is not realistic. Indeed, it might be impossible, given the special ethics of business. He avoids discussion of green business strategies but concentrates instead on the paradigm shift or far-reaching cultural changes that he believes to be necessary within corporations and the economic system.

Brenkert then claims that these changes are already well underway. He refers to social and cultural movements, or forces, including as green feminism, postmodernism and workplace empowerment, all of which are pushing towards the idea of business as a solution. However, as noted in the earlier discussion of trends (p. xxi) many others see the opposite happening: a sense of disempowerment and a strong social-conservative reaction to those cultural ‘forces’. However, as also noted earlier, any disagreement about the trend might be due to the adoption of different time horizons.

Stakeholders (Stakeholder Theories and Strategies)

In Chapter 22 Thomas Jones and Andrew Wicks note that narratives involving stakeholders might give rise to a legitimate grounded theory of management, but also pose the crucial question: ‘How is one to discriminate between good and bad narratives?’ A possible answer is that a good stakeholder theory would help people live morally enhanced lives. Accordingly, they review several variants of stakeholder theory. The instrumental form claims that firms which look after key stakeholders will achieve greater success, but the authors also note that the relevant empirical work is inconclusive. An alternative normative stakeholder theory makes a case for multi-fiduciary management duties and the intrinsic value of caring for stakeholders.

Jones and Wicks then propose a ‘convergent’ or hybrid stakeholder theory that combines social science with ethics. Such a theory would be ‘unabashedly normative’ (l, p. 361) in that it would demonstrate how managers can create morally sound approaches to business and make them work. Their proposal is a contribution to a protracted and wider debate about the relationship between the empirical and the normative (facts versus values/is versus ought) across the entire spectrum of management theory including business ethics (see, for example, Kadane and Larkey, 1983; Singer, 1998; Weaver and Trevino, 1994).

Edward Freeman’s works have been at the centre of much of the debate about stakeholders in business. In his essay, ‘Divergent Stakeholder Theory’ (Chapter 23) he acknowledges that the normative–instrumental–descriptive typology is useful. He also notes that proponents of the instrumental theory have, in effect, sided with the philosopher Russell Hardin (cited in the essay) who ‘has argued persuasively that ... consequences may be all that our moral apparatus can handle’ (l, p. 379).

However, according to Freeman, instrumental stakeholder theory remains unsatisfactory not only because of the empirical ambiguity, but more importantly because the distinctive narratives about stakeholders ‘are better understood if they are left alone’ (l, p. 380, emphasis added).
In this important essay Freeman endorses the persuasive nature of stakeholder theory (see ‘Persuasion’, p. xxiii above). He reminds us that the very term ‘stakeholder’ is an ‘obvious literary device, meant to call into question the emphasis on “stockholders”’ (I, p. 378). Accordingly, the very idea of an empirical and value-free stakeholder theory is a contradiction in terms. It remains to be seen whether Freeman’s literary device will prevail on the ground. Certainly, it has succeeded in stimulating a great deal of inquiry, as was originally intended.

Despite any ‘unsatisfactory’ aspects of the instrumental theory, I.M. Jawahar and Gary McLaughlin (Chapter 24) draw heavily upon means–ends reasoning to derive their hypotheses about stakeholder strategies at various stages of the business life cycle (that is, start-up, growth, maturity and decline). In this way, they elaborate upon the question of timing and ethics: when survival is at stake, entities generally attend to narrow self-interest. They specifically hypothesize that, during the start-up stage of a business, managers will behave proactively towards stockholders, creditors and customers, merely react to trade associations and environmental groups, accommodate employees and suppliers, but be defensive towards government and community. Comparable strategies are hypothesized at the other stages of the cycle.

As theoretical justification, Jawahar and McLaughlin invoke resource dependency theory (that is, managers attend to stakeholders who have needed resources) and prospect theory (which formalizes the way in which a risky choice can be perceived, or framed, in the mind). Although these theories reflect distinctive positions on the ‘is versus ought’ question, no particular justification is given for invoking them. Indeed, the important narrative about the timing of stakeholder strategies might be ‘better understood if left alone’.

In Chapter 25 John Hendry identifies three types of normative stakeholder theory, respectively involving: (i) management responsibilities in an ideal just society (like System 2); (ii) desirable changes in laws and institutions (a variant of System 2); and (iii) managerial conduct in the existing system (System 1). He then claims that normative stakeholder theory as a whole is ‘missing the target’. According to Hendry, its proponents have ‘consistently set their sights either too high or too low to effectively engage with the rival shareholder theory’ (I, p. 399). In other words, attempts at persuasion have generally failed. Hendry notes that the recent corporate governance debate in several countries has focused almost exclusively on the relationship between manager and shareholder. This was the case not only in the USA, but also in traditionally stakeholder-oriented societies, such as Japan. Hendry seems to be alluding to a trend towards System 1, in which the profit motive is in the ascendancy (see ‘Trends’, p. xxi above). However, he concedes that milder versions of the stakeholder theory might still be relevant to management education (see also Part VII).

Amitai Etzioni (Chapter 26) joins with Freeman, in contrast with Hendry, seeing that the stakeholder theory is an ‘extension of developments already in hand’ (I, p. 417). In several capitalist countries, private-sector employees already have representation at the governance level, and various mechanisms are in place to provide some representation for stakeholder groups. Indeed, the term ‘stakeholder economy’ is sometimes applied to whole societies: those that seek a balance between community and economy.

Etzioni’s many important projects have consistently emphasized communities, with their associated value priorities. He particularly considers that everyone involved in the activities of a corporation are members of a community, with employees and the neighbourhood having a legitimate claim based on their ‘investment’ of years of labour and resources. In contrast,
traditional business and capitalism tends to champion the individual and, arguably, the universal, but tends to ignore or else disrupt communities.

Models (Choosing a Conceptual Model)

The existence of rival stakeholder and shareholder theories raises a larger question about the status and interpretation of all strategic management theories. In Chapter 27 Roland Calori examines this question, offering a wide-ranging epistemological critique of ‘orthodox’ models. He begins by noting that the recent idea of a knowledge-based firm casts epistemology to centre stage, but philosophy has been largely separated from studies of management and organization.

The orthodox theory displays several systematic biases, particularly towards rational deliberation. It thus avoids the vivid emotions and passions that more accurately characterize the real world of business and politics. Theories of strategic planning, in particular, reflect the Cartesian paradigm (or the engineering view), but ignore the Jungian distinction between intuition and sensation. This might be because planning methodologies are market offerings that managers buy, because they want to seem rational. In fact strategic management is all about retaining power and defending privilege, with the associated emotions and dubious ethics. Matters relating to personal character and moral reasoning have also been ignored in the mainstream theories. Finally, with regard to dialectics (see ‘Synthesis’, p. xxiii above) Calori notes that Lawrence and Lorsch (1967) applied Hegel’s ideas to management theory several decades ago, but were largely ignored. Currently, Calori believes, epistemology and ethics can surely help scholars and practitioners to ‘renew their management models, recipes and theories’ for business success (I, p. 433).

Alan Singer (Chapter 28) examines the very idea of ‘renewal of mental models’ asking what it is that is being renewed. He notes that conceptual models of strategy can themselves be depicted and described in a variety of ways, such as end-states of a transition process, or as patterns that replicate in managers’ minds, or as the objects-of-choice in a meta-modelling decision. Accordingly, he defines a meta-model of strategy as: ‘a conceptual-model of (a conceptual-model of (aspects of reality)))’ (I, p. 460) and then demonstrates that discussions of strategy models and their uses typically invoke the very same concepts and categories of meaning that are found in those models. This finding, in turn, points to a possible synthesis of strategic and ecological thinking, because self-reference is also central to ecology of mind (see, for example, Bateson, 1972). This recursivity also carries some implications for the business ethics–strategy relationship. First, the notion of exchange should be augmented with values related ecological understanding. Second, ‘strategic thinking’ is itself part of a grand ecology-of-mind, just as ethical theory can also be regarded as a highly evolved level of consciousness.

Finally, in Chapter 29, James Davis, David Schoormann and Lex Donaldson examine a particular meta-modelling decision involving the agency model and stewardship model of corporate governance. The former assumes that subordinates are ‘individualistic, opportunistic, and self-serving’ utility-maximizers. Stewardship theory, in contrast, assumes that subordinates are ‘collectivists, pro-organizational, and trustworthy’ (I, p. 473), with more complex motivations. In reviewing these two alternative models, the authors consider several components of the dualism and find, for example, that the ‘[agency] model of man does
not suit the demands of a social existence' (I, p. 477). A meta-modelling decision is then considered, in which managers choose at different times to behave as stewards or as agents. That deeper choice (that is, between models with their corresponding forms of rationality) is then contingent on the manager’s ‘psychological motivations and their perceptions of the situation’ (I, p. 496).

Empirical studies have done little to inform this decision. Some studies have linked the agency prescriptions to higher performance of the firm. However, other studies have found that prescriptions associated with stewardship theory, such as executive-chaired boards, are associated with significantly higher corporate performance. Still others found no significant difference. The empirical ambiguity is quite typical for studies that compare performance across the dualism. Indeed, according to Margolis and Walsh (Chapter 53) this ongoing ambiguity should now be regarded as a starting-point for deeper inquiry.

**Game Theory (Game Theory and its Interpretations)**

The debate about model selection is especially lively in the case of game-theoretic models applied to business. At the heart of the controversy is the distinction between a model *per se* and its likely effects on the behaviour of managers and those who study it. Robert Solomon (Chapter 30), for example, comments that the theory is ‘dangerous and demeaning’ (II, p. 3) when it is used to teach students in business ethics courses (and perhaps also in strategy courses, although he does not say this). In contrast, from the point of view of one who is studying or developing the mathematics of the theory (Binmore, Chapter 31) such statements appear quite remarkable.

Solomon is concerned that the use of game theory as a classroom ‘metaphor’ for business behaviour leaves less room for other theories, whilst it also reinforces ‘a destructive obsession with measurable outcomes and a false sense of competition’ (II, p. 3). He also notes (in line with Calori, above) that the kind of formal thinking involved in game theory ‘does not mix easily or comfortably with the sensitivities that are essential to ethics’ (II, p. 4). For Solomon, ‘[b]usiness life consists, for the most part, of carrying out ... duties [and] fostering relationships’ (II, p. 9) and, for most people, this ‘is not just a game’ (II, p. 7). He cites the moral philosopher Bernard Williams who wrote of the importance of ‘unhesitatingly doing the right thing’ (II, p. 4). Solomon adds to this that ‘a person who actually practiced the form of “rationality” advocated by game theory would be something of a monster’(II, p. 3).

In Chapter 31 Ken Binmore, a pre-eminent mathematician and political theorist, responds to Solomon by first noting that the principles of game theory are in fact ‘ethically neutral, like ... 2 + 2 = 4 in mathematics’ (II, p. 24). Furthermore, at a more advanced level, game theory provides rich explanations of how human morality can evolve (that is, evolutionary ethics). It has also been used to analyse all manner of ethics-related behaviours, such as the pattern of interaction within families where ‘brothers and sisters actively care about each other’s welfare’ (II, p. 24).

It seems that the argument between Solomon and Binmore can be resolved in two ways. The first of these refers to the difference between a theory *per se* and its educational and social effects. In this sense, Binmore aligns with Oppenheimer, the physicist who famously stated that scientists cannot be held responsible for what the world does with their findings (or the theory). At another level, the argument can be recast in terms of distinctive forms of
rationality (see ‘Rationalities’, p. xvii above, and Part I of this collection). Binmore sharply places Solomon amongst those who ‘fail to clear the lowest hurdle that game theorists set for their profession’ because they claim that ‘it is rational to cooperate in the one-shot Prisoners’ Dilemma’ (II, p. 24). In fact, the opposite choice, defection, is nothing less than a formal definition of rationality in game theory. The reflective and substantive forms of rationality that Solomon prefers can be found within the many natural-language interpretations of the formal theory, but they are not a part of it.

In Chapter 32 Alan Singer sets out a general framework for investigating precisely the kinds of conflict inherent in the Binmore versus Solomon debate. He uses the term ‘extension’ to describe mathematical developments of games in which the players are utility maximizers (as, for example in the analysis of family care). In contrast, he uses the term ‘adaptation’ for any communication that involves other forms of rationality. He then proposes a particular adaptation of game theory in which the players are assumed to be plurally rational – that is, they are capable of choosing amongst, and operating with, all the forms of rationality, adjusting the mix at different times and according to the circumstances.

Applied to business, this adaptation describes a different type of game amongst ethical pluralists. A further adaptation involves players who are capable of identifying or creating synergies amongst the distinctive forms. Previously, Ritzer and LeMoyne (1991) had detected this particular capability in their studies of Japanese industrial systems. For example, a player in this type of synergy-seeking game (an ultra-game) might engage with benevolent institutions in ways that strengthen identities whilst also creating wealth. By communicating this idea of an ultra-game in various ways, we might help managers and students augment their language, their character and their ideology, but remain fully consistent with both Solomon and Binmore.

**Trust (Trustworthiness and Trust-building)**

In the heuristic development and interpretation of mathematical game theory, the concept of trust is quite prominent. For example, players in a prisoner’s dilemma game who trust each other will choose to cooperate; if not, they will be inclined to defect in order to avoid their worst outcome. More generally, as George Brenkert notes in Chapter 33, trust involves a constraint on self-interest. He emphasizes the importance of trust as a general attitude towards others, but notes that ‘within the market, trust will require special efforts and commitments which it does not necessarily require in ordinary life’ (II, p. 55). Various forms of trust have instrumental value – for example, in contributing to social stability – but they also have intrinsic value. This applies even when the trust is formed around morally unworthy projects, or groups, although in such cases trust might then ‘lack moral value’ (II, p. 53).

In business, considerations of trust and trustworthiness lead quickly to several components of the underlying dualism. For example, anyone who is aware of the harms caused by the known limitations of markets (see p. xvii above) would distrust managers who plainly exploit those limitations. On the other hand, anyone who values individualism and knows about the evil that can sometimes conspire within groups (for example, Sen, Chapter 9) is likely to be somewhat suspicious of communitarian projects, and so on. Accordingly, there is a sense that trust can somehow be optimized if institutional and business policies and practices would
strike a balance across these aspects, or components. As Brenkert puts it, ‘the conditions for fostering trust can also foster international business ethics more widely’.

In Chapter 34 Jay Barney and Mark Hansen also note that there are several types and levels of trust and that these determine the optimal strategy for profit. A managerial attitude of trust towards employees can be a source of competitive advantage, provided that the trust is justified and competitors invest in ‘unnecessary and costly governance devices’ (II, p. 78). Similarly, an attitude of trust towards customers and suppliers can also be a source of competitive advantage, when direct competitors have a different attitude. Barney and Hansen caution that working assumptions about exchange partners, such as ‘most are trustworthy’ or ‘most are opportunistic’, are too simplistic. The trustworthiness and other characteristics of exchange partners vary, so a full knowledge of the actual situation can itself confer a competitive advantage.

Jerry Calton and Lawrence Lad (Chapter 35) consider trust specifically in relation to networks – that is, actors linked or ‘tied’ together into a productive social system. They note that the sustainability and stability of any network depends on maintaining mutual trust amongst the actors. They also argue that, in order to preserve trust, decision-making processes in the network must be consent-based and dialogue-driven. This is also, they indicate, the best way to achieve equity (fairness) in a network where there are imbalances of power.

The specifically ethical nature of this dialogue-driven decision-making can best be understood by viewing it as process of constructing a micro-social contract within the ‘moral free space’ described in Donaldson’s and Dunfee’s (1990) Integrative Social Contracts Theory (ISTC). According to that theory, free individuals ‘would agree to a macro social contract that preserves a moral free space, within which to generate their own norms’ or micro-contract. By invoking ISTC in this way, Calton and Lad indicate a new pathway from strategy to ethics: the essence of ethical strategy in networked entities is nothing other than the facilitation of this consensual dialogic governance process.

Following on from this, LaRue Hosmer (Chapter 36) notes that the definitions of ‘trust’ found in the scientific disciplines of psychology and organization theory actually incorporate moral values, such as benevolence, goodwill and the duty of care. Accordingly, the concept of trust appears to lie at the confluence of normative and empirical theories. In a noteworthy section of the essay, Hosmer claims that many ethical rules were proposed by the classical philosophers in order to foster trust, as a preliminary step towards building a ‘good’ society. For example, a good person should intend a mixture of personal gain with the wellbeing of the community and so on (see also ‘Synthesis’, p. xxiii above). Hosmer’s invocation of classical works in this context seems to possess an important subtext. The works he cites seem so obviously relevant to contemporary business problems that their omission from the mainstream discourse and curriculum almost demands a fuller explanation. Put simply, ethical egoism and logical positivism are consistent with traditional capitalism and ‘the engineering view’ of business and economics. As new forms of capitalism emerge, the full spectrum of ethics and epistemology is becoming more visible.

Lobbying (Lobbying and Corporate Citizenship)

An ideal democracy requires ethical institutions, with individual citizens who are able to vote freely. Corporate lobbying, on the other hand, is a process whereby powerful players
disproportionately influence the rules. It therefore seems unethical and unjust. Accordingly, Part X of this collection considers the ethics of strategic lobbying more fully.

In the first essay, by J. Brooke Hamilton and David Hoch (Chapter 37) it is noted that lobbying by businesses can promote corporate self-interest, or the public interest, or both. Much earlier, Adam Smith had noted in *The Wealth of Nations* (1776) that lobbying by ‘merchants’ is typically against the public interest, and many believe that this remains true today. Brooke Hamilton and Hoch consider self-interested business lobbying, which allows the corporation to benefit at the expense of the public good, is ‘illegitimate’. For example, two business associations in the US lobbied in support of a tough policy in foreign affairs explicitly because ‘[w]ar ... is good for the business’ (II, p. 150), rather than because a particular war was just.

On the other hand, if a corporation or industry association envisions a project that plausibly serves the public interest, relevant lobbying might be justifiable. A much stronger (right-leaning) ideological position sees that corporate lobbying for strategic self-interest might in all cases be considered ethical, to the extent that it fosters the productive spirit of competition (although Adam Smith in no way implied this). Brooke Hamilton and Hoch also conclude that business lobbying can be a socially responsible activity, but that it needs to be ‘restrained by ethical standards’ (II, p. 142). Specifically, lobbying tactics should be evaluated in relation to ethical rules regarding the minimization of harm, respect for human rights and fair distribution. They urge business managers to use the ‘publicity test’ for their strategies and not to ‘make exceptions’ for themselves (II, p. 148). There is pressure to apply these tests to lobbying strategies, from the law (for example, the US Lobbying Disclosure Act, 1995) and from other institutional efforts.

In a succinct contribution to the present collection, Leonard Weber (Chapter 38) reviews Jeffrey Birnbaum’s book *The Lobbyists* (1993), which explains how lobbying is conducted in the USA. Corporate lobbyists not only provide law-makers with information, but they also assist political staff in actually drafting or revising legislation. They also typically ‘accompany lawmakers at many social and speaking events’ (II, p. 157). As a result the US government ‘has become increasingly sympathetic to the corporate cause’ (II, p. 157).

Birnbaum suggested that the shaping of public policy should instead be based upon the ethos of ‘citizenship’, rather than on the private interests of producers and consumers. Indeed, if citizenship is seen as nothing more than the pursuit of private interests, then ‘all the ethics rules in the world are not likely to produce good government’ (II, p. 159). This point is very well established in the field of government ethics, but it appears not to have been accepted by contemporary businesses and industrial associations. Accordingly, the present system of strategic lobbying is ‘potentially corrupting’: ‘it benefits to the powerful and the wealthy at the expense of others’ (II, p. 161) and to the detriment of the community. If lobbying were to be construed properly as a ‘citizenship activity’, it would include voluntary restraints on the use of corporate power. Indeed, ethical businesses would sometimes forego political activity, even when it was legal.

In Chapter 39 William Oberman sets out a framework that is intended to strike a balance between the public and private interests that are at stake in corporate lobbying. He first notes the (right-leaning) argument that corporate managers have a ‘duty to represent the functional requirements of economic productivity in the process of creating balanced public policy’ (II, p. 164), but also that managers might have fiduciary duties to act when the interests of
corporate stakeholders are affected by government action, or inaction. Accordingly, as long
as the system remains contestable, corporate lobbying is legitimate and a representative
democracy can still function. Put differently, lobbying is allowable, as long as citizens’ voices
are not completely drowned out by the voice of business.

Oberman’s analysis reveals another aspect of the relationship between business strategy
and business ethics. It is known that firms differ in their capability to influence public policy –
that is, their level of political capital – but the way in which capital is deployed can determine
whether or not a strategy is ethical. Specifically, managers should ask whether any action
or strategy is expected to reduce the representation of other groups in the political decision-
making process, to ‘below the level of contestability’. A more left-leaning position would
demand that managers should also ask whether a lobbying strategy is expected to ‘deceive
and manipulate the public’, or whether it contributes to distributive injustices (II, p. 171). In
sum, it seems that to meet the test of ethical acceptability, corporate political capital should be
deployed in ways that do not exclude, deceive or exploit.

**Corruption (Corruption and Strategy)**

When business lobbying takes place in ways that do exclude others or result in significant harm,
it is rather similar to bribing a public official. In Part XI of this collection the phenomenon of
corruption is briefly considered in relation to business strategy.

In the opening essay Christopher Robertson and Andrew Watson point out that perceived
corruption is one of the factors influencing inward foreign direct investment (FDI) to a country.
In an innovative study, they find a reverse influence: the more rapid the rate of change in FDI,
the higher the subsequent level of corruption. It seems that ‘[w]hen a country is inundated
with a disproportionate level of FDI in a short period of time, a jolt to the moral framework is
more likely’ (II, p. 185). This finding is also consistent with Knight’s (1936) classical model
of ethics and competition, in which ethics deteriorate when there are too many profitable
opportunities. Robertson and Watson then suggest that managers should ‘rethink the validity
of their corporate codes of ethics in countries that have experienced a massive influx of FDI
or are in dire economic straits’ (II, p. 192). In other words, the normal corporate code is likely
to be too stringent for the frenzied situation on the ground. On the other hand, they also point
out that ‘nations which are typically senders of FDI [and, by implication, corporations that
invest overseas] … possess many moral responsibilities’ (II, p. 192).

A study by Karen Schnatterly on corporate crime (Chapter 41) offers yet another new angle
on the strategy–ethics relationships. White-collar crime affects business performance, but
is also affected by organizational structures and processes. Whilst ethics is related to law,
structure and performance are core themes of ‘strategy’. Schnatterly cites data indicating
that white-collar crime costs about 1–6 per cent of sales and is thus greater than many profit
margins. Accordingly, ‘moves to reduce it should be of interest to investors’. She studied 114
matched pairs of firms (that is, white-collar crime versus no white-collar crime) and found
that: (i) having bonuses or profit-sharing schemes covering all employees is associated with
a 34 per cent lower level of crime; (ii) having a code of conduct that emphasizes citizenship
and responsibility, together with a top management who ‘know the code’, is associated with
a 16 per cent lower level of crime; and (iii) increasing the level of share options for the CEO
tends to increase the level of crime, hence reducing profit and the value of those same options.
However, according to the data, the overall level of CEO compensation and the proportion of outsiders on the board were not significant (see also Davis et al., Chapter 29).

**Poverty (The Effects of Business on Poverty)**

In recent times, plans to reduce world poverty have been high on the international political agenda, but the role of business enterprises in this project remains controversial. A mainstream view (that is, a System 1 view) sees that profit-maximizing businesses can create wealth, subject to political constraints, but they do not have an interest in redistribution or in equipping others with an ability to pay. An alternative (System 2) view sees that business can and should have a dual vision or mixed motives that include the reduction of poverty. Wealth creation and poverty reduction would then be regarded as separate goals, but businesses would deliberately try to achieve both, possibly in partnership with NGOs and governments.

In a noteworthy essay first published in the *Harvard Business Review*, C.K. Prahalad and Allen Hammond (Chapter 42) report an ‘enormous’ latent demand for low-priced, high-quality goods amongst the world’s poor. For example, the Indian subsidiary of Unilever introduced a high-quality candy aimed at bottom-of-pyramid (BOP) markets, but achieved a very high sales volume. There is similar strong demand for all types of ‘affordable services’, especially computer-enabled education and financial services for the poor.

Building new businesses in order to ‘serve’ the world’s poorest markets offers several competitive advantages to MNCs. The outsourcing of jobs to these regions ‘[b]esides keeping costs down … ultimately increases local consumers’ purchasing power’ (II, p. 229). Prahalad and Hammond observe that poor people can use goods and services ‘on a pay-per-use basis’ and this enables businesses to ‘get considerably more revenue per dollar of investment in the underlying assets’ (II, p. 230). Also, the need to keep costs low ‘can push companies to discover creative ways to configure their [global] products, finances, and supply chains’ (II, p. 229). Similarly, when MNCs partner with local social enterprises and NGOs, they often find out about new uses of technology, and these lessons can sometimes be applied in developed markets. The authors caution that all these strategies ‘will be of little use’ unless the infrastructure is improved and corruption removed, but they also believe that that ‘technology holds the most promise’ for achieving this (II, p. 233).

Overall, they tell a persuasive story of a benevolent global capitalism in which markets are ‘served’, women entrepreneurs and consumers are duly honoured and high-tech infrastructures spread through private enterprise. The corporation is urged to bring its expertise to bear on the development of BOP markets, essentially because they are profitable; but a subtext appears to be that they are also acting ethically by helping the poor. On the other hand, it should be borne in mind that MNCs that follow these recommended strategies can also avoid tax and lobby for tax reduction. It might also be noted that the celebrated ‘high-quality candy’ probably does little to improve local dental health and nutrition, whilst the ‘pay-per-use’ strategy might be a euphemism for ‘the poor pay more’ (see Hill, Chapter 44). Accordingly, in order to really achieve the moral high ground, it seems that some additional actions and motives are needed.

The essay by Prahalad and Hammond tells a story about how the market system (unlike governments) might be a way out of poverty. A related story tells how poverty is caused by lack of opportunities. According to Edward Freeman (Chapter 43), however, all of those
stories are ‘outmoded’. The new story is that of stakeholder capitalism, which can also be a much needed solution to poverty. In this solution, stakeholders of productive entities pursue joint interests, company directors have a duty of care and managers have multi-fiduciary duties.

Freeman asserts that stakeholder management is not just a ‘marketing tool’; it has substance and can lead to wider changes in people’s general attitudes. In particular, under stakeholder capitalism people everywhere would come to expect that companies should deliberately attempt to raise the level of the least well-off (that is, System 2). Numerous NGOs are currently advocating and facilitating this approach and way of thinking. Freeman calls for a wider politics of ‘conversion’, so that laws can be changed nationally and internationally in order to foster the new form of capitalism and hence reduce poverty.

The treatment of the least well-off is a core issue for the politics of capitalism and for business ethics. In Chapter 44 Ronald Hill sides with John Rawls in indicating that ‘inequities of wealth and authority are only just if they result in compensating benefits for everyone, and in particular the least advantaged members of society’ (Rawls, 1971, pp. 14–15, cited at II, p. 248). However, as Hill notes, poor consumers typically face severe restrictions with few compensating benefits.

He reports several studies of marketing to the US poor whose overall findings raise serious questions about the efficacy of Prahalad’s and Hammond’s prescriptions for alleviating poverty in less developed regions of the world.

A study over 40 years ago in the USA concluded that unethical practices abound in the ‘poverty market’, whilst a more recent (1993) study revealed that prices in poor neighbourhoods in the USA were typically 41 per cent higher than the lowest price available in more affluent ones. This pricing is made possible by the fact that the poor face mobility barriers: they can’t afford to travel out of the neighbourhood to find better prices. In addition, the poor are routinely offered credit terms that are highly exploitative. Furthermore, the many ‘companies that engage in predatory lending are now close to, or part of, mainstream corporate America’ (Karpatkin, 1995, p. 119, cited at II, p. 249).

Hill concludes that there is a need for a new ‘ethical paradigm’ for serving the poor (II, p. 248). He identifies three possible strategies for doing this. The first is to increase what the poor have to exchange (a Keynesian approach), the second is to decrease the bargaining power of marketers (which is difficult to achieve) whilst the third is to adjust the product mix offered by businesses. The latter, he suggests, is the most promising approach. Now more clearly aligned with Prahalad and Hammond, Hill believes that there is a business opportunity and a social need to make a wide variety of offerings at affordable prices. This type of strategy has been followed by Dollar General. Their mission of ‘A Better Life for Everyone’ (II, p. 249) involves serving (or targeting) low-income consumers. According to Hill, that company is now a ‘role model of corporate as well as moral success’ (II, p. 250).

Knowledge (Intellectual Property and Knowledge Strategy)

In Part III, on Globalization, Jane Collier (Chapter 13) referred to the ‘shocking’ practice of patenting genetic components. Historically, the very idea of intellectual property rights (IPR) has always been controversial. It seems greedy because it involves attempts by private parties to obtain exclusive control over non-rival goods (that is, goods that do not, by their
very nature, have to be rationed). In Chapter 45 D.B. Resnik considers the process of judicial interpretation of existing IPR laws applied to businesses. He notes that a variety of ‘moral values’ and arguments can be used to justify each of the forms of intellectual property, particularly controversial patents and copyrights. In practice, the best approach to making legal judgments is to ‘assess and balance competing moral values in light of the particular facts and circumstances’ (II, p. 255).

Resnik notes that there is a ‘sense that intellectual property increases disparities within and between nations’. Like Collier, he points to the non-affordability of life-saving drugs in the developing world. Resnik notes that a Rawlsian view prescribes limitations on property rights of any kind so that they don’t undermine the independence and self-respect of others, as, for example, when dying of AIDS. However, limitations on the duration of patents and copyrights and a doctrine of fair use can make these forms of IPR consistent with the Rawlsian view.

With regard to trade secrets, Resnik considers the hypothetical case of a business that invents a good product like a fuel-efficient engine, but keeps it secret in order to first sell its current models. Variants of this business strategy are very common in the technology sector, but they arguably oppose the public good. Once again, one might argue (without proof) that any harms caused by secrecy are compensated for by the productivity presumed to be fostered by the incentives created by strong IPR regimes. Accordingly, judgements and legislation in this area must attempt to strike an ‘optimal balance’ (see, for example, National Research Council, 2000). This form of pluralism, with its associated need for a balance, can be applied to other areas of business ethics, but it also characterizes business strategies over time (see ‘Timing’, p. xviii above). That is, strategies can sometimes be greedy and uncaring, sometimes expressive and caring ‘depending on the circumstances’.

In Chapter 46 Alan Singer and Jerry Calton show how IPR policies can be related to business models, economic theories and strategic scenarios. A world with free non-rival goods (information) and priced rival goods is theoretically possible, because there are many business strategies for capturing revenue and appropriating profit in weak IPR regimes. Alternatively, IPR regimes can be viewed as the result of political pressures from lobbying groups, including legal, accounting and industry associations, security and defence interests, all of whom have (narrow) interests in strong regimes (see Part X). Citizens, users and those concerned with justice and democracy would tend to advocate weaker IPR regimes.

In more abstract terms, IPR regimes can be thought of as interventions in a grand ecology of knowledge, but they are, at the same time, a part of that ‘ecology’. They change the way in which some knowledge is produced distributed or embedded in subsystems. Ethically, this form of production (like others) ought to be carried out in ways that intentionally promote human development and flourishing, whilst respecting minority voices and promoting dialogue. The present state of affairs with IPR regimes worldwide does not do this. Indeed, it has been described by several experts in law and policy as ‘crazy’, ‘ludicrous’, ‘absurd’ and ‘incredulous’, rather than rational or moral.

Patricia Werhane and Michael Gorman note in Chapter 47 that the patent protection of biomedical products has now created a ‘tragedy of the anti-commons’ (Heller and Eisenberg, 1998), so that moral imagination and a systemic perspective are urgently needed, particularly in the healthcare industry. They argue that pharmaceutical corporate strategists should adopt new ‘ways of thinking’ in which they: (i) acknowledge that IP rights do not override the right to life; (ii) accept that forward-looking obligations have arisen from the intellectual debts
that we have to each other; (iii) regard IP rights as shared by the contributor network; (iv) give consideration to the current value-priorities of each stakeholder group; and (v) think of drug distribution activities in developing countries as strategic programmes, not as sales and marketing.

To be ethical, strategists must also be aggressively innovative. Simply ‘giving away drugs’ is often impractical and can be dangerous. Normal internationalization strategies are often not feasible. Narrowly focused donation programmes (for AIDS-infected pregnant women, for example) do not work very well. However, several more successful alternatives have been identified and pursued in developing countries, including the provision of female condoms and the development of vaccines. The most significant generic strategic ‘alternative’ is the alliance-for-health model. Here, businesses forge alliances with NGOs, social marketing organizations and governments to enable drug distribution and to set up a network for user education. Companies that implement this ‘alternative’ are then distributing more than just their product; they are also distributing (rather than avoiding) the many risks and responsibilities.

Systems (Systemic and Holistic Approaches)

Part XIV of this collection considers various holistic, but distinctive, aspects of the relationship between business ethics and strategy.

In a book aptly entitled Moral Principles in Education (1909), the nineteenth-century American pragmatist philosopher John Dewey urged ‘a genuine faith in the existence of moral principles which are capable of effective application’ (p. 57). Several ‘good’ principles were indeed established which then had an unmistakable influence on generations of school administrators. Edward Soule (Chapter 48) perceives an urgent contemporary need for ‘a few good [moral] principles’ that can ‘help managers, students, and scholars contend with moral business problems’ (II, p. 311). Practical guidance is only possible, he says, if decision-makers are confronted with compelling moral reasons for behaving in a particular way. Put differently, selected moral principles are the best form of persuasion, but grand abstract theories and classification schemes are less effective and practical. Soule then suggests four criteria for evaluation of principles of ‘moral strategy’ – namely, comprehension, comprehensiveness, specificity and contextual relevance. In other words, managers must be able to understand the principles, the norms must be applicable to all concrete cases, and the principles must be specific, but also capable of dealing with the complicated loyalties and obligations that are encountered in some business roles.

Whereas Soule is concerned with moral education and persuasion, Patricia Werhane (Chapter 48) focuses on the existing mental frameworks and psychological schemata that individuals use to make sense of their world. She suggests that one of the most common reasons for unethical behaviour is that managers lack a general sense of the variety of possibilities for action. In other words, they lack ‘moral imagination’. For example, the Ford executive who coordinated the recall of the infamous Pinto in the 1970s later observed that “the schemas driving my perceptions and actions precluded consideration of the issues in ethical terms”’ (II, p. 327). In contrast, a group of bank managers in the USA recently exercised moral imagination when they redescribed the funding of enterprises in a poor urban area as being ‘less risky that many Third World recipients of Big Bank loans’ and then approved these loans (II, p. 341).
More generally, it is often necessary to ‘break out of one’s own schema’ in order to properly assess any strategic situation. Whether or not this is possible is itself a philosophical problem, the solution to which might be that different schemas can be considered and compared by the same person as long as there is ‘a common coordinate system’ (II, p. 325). Put simply, it is well within human capability to reframe and redescribe a situation, which in turn stimulates the creative generation of new possibilities for action. In a similar spirit to Soule in the preceding chapter, Werhane claims that, in order to link the theoretical to the practical, a greater level of moral imagination is now needed.

John Dobson and Judith White (Chapter 50) recast the role of substantive versus instrumental forms of rationality in terms of gender differences. First, they claim that there is a strong male gender bias in most business theory (that is, too much emphasis on instrumental rationality). Second, they trace linkages between substantive rationality, virtue ethics and ‘relationship-based’ values, all of which fit well with the stakeholder view of the firm and the grand theme of ‘nascent economic woman’ (II, p. 347). They also suggest that a greater emphasis on substantive rationality and female gender attributes is not only morally desirable, but also economically efficient; in part because of the increased trust it would foster (see also Parts IX and XV).

For the autonomous (male) self, ethics has a game-like quality (see Part VIII) – that is, it is instrumental and strategic. In contrast, an ethical outlook derived from a connected or female self is ‘more situational and contextual’, with an emphasis on care (II, p. 349). They also argue, more controversially, that virtue ethics substitutes internal goods for external ones. Here, they ignore a classical economic conundrum: an internally-oriented life of contemplation can result in external material poverty. As Adam Smith indicated, it does not drive forward the ‘industry of mankind’ (Bishop, 1995, p. 178). It seems we still need to establish whether or not this observation remains empirically correct, even as it seems politically incorrect.

Peter Pruzan, a Scandinavian systems theorist, combines two major components of the dualism in an essay on moral agency and value priorities (see Chapter 51). He first describes a ‘common schizophrenia’ involving values such as efficiency competitiveness and power, as opposed to values such as health, honesty and love. He describes the latter as ‘personal’ (or individual) and the former as ‘organizational’. Hence the standard partitioning of the value set is mapped directly onto the question of corporate moral agency.

Others (including Milton Friedman, 1970) have argued that, because business entities are not moral agents, business managers should not be involved in social activities. Still others have sided with Pruzan, seeing that it is very common to speak of an organization’s visions, strategies, goals and responsibilities, or to ascribe all manner of human qualities to corporations, collectivities and groups. Pruzan argues that, under certain conditions, the human competency for conscious and intentional behaviour can be correctly ascribed to organizations. At the level of business practice, he believes that several recently institutionalized methods, such as social audits in the UK are the way to ‘heal’ the schizophrenia and spread ethical business. He believes that if we can get more widespread agreement by corporations and their managers to use these methods, then organizational virtues will become real (see also Part XVI).

The knowledge that is needed to make virtues real is embedded within human individuals and in social institutions. It is part of human capital and social capital, the latter being, according to Milan Zeleny (Chapter 52), the ‘enabling infrastructure of institutions, civic communities, cultural and national cohesion, collective and family values, trust, traditions, respect and the
society (II, p. 378). According to Zeleny, managers, businesses and
governments should co-create more capital, but this refers to all four distinctive forms, not
only ‘manufactured’ capital but also social, human and natural capital.

Zeleny believes that social capital is the most critical, although it has been the most
neglected and ignored (at least up to 1995). Adam Smith observed that markets only serve
humanity when there are pre-existing moral communities. Similarly, Zeleny believes that
strong cultures with high levels of civic trust ‘tend to produce higher economic performance ...
not the other way around’ (II, p. 378, emphasis added). Like Amartya Sen (1996) he also
notes that Japan has been successful, despite having virtually no natural resources. Its wealth is
primarily due to its human and social capital investments. More generally, any self-producing,
self-sustaining social entity would include among its purposes a healthy environment and
human flourishing. According to Zeleny, trade-offs that lower the level of social capital in
order to maximize ‘man-made’ (profit-related) capital are rarely sustainable. Accordingly, in
his view, the four forms of capital must be developed together in balanced and harmonious
ways. This applies to business entities, as well as entire nations.

In Chapter 53 Joshua Margolis and James Walsh describe how organization theory and
empirical research have responded to public expectations that businesses should provide
‘innovative solutions to deep-seated problems of human misery’ (II, p. 381). They begin
by noting that values will ‘orient preferences’ amongst alternative models of the firm (see
also Part VII), but they also see that the ambiguous empirical research findings reinforce,
rather than relieve, the tension surrounding this ethical issue (see also ‘Performance’ below).
Accordingly, they argue that if firms do decide to get involved in social issues ‘they must warn
their constituencies so they can then protect themselves from corporate misadventures’ (II, p.
384). Also, social initiatives must not affect a firm’s capacity to perform its core functions,
although a function can be temporarily suspended. Margolis and Walsh warn more generally
against the ‘accountability’ approach to business ethics. Put simply, corporations should move
beyond appearances towards the actual fulfilment of specific moral responsibilities.

Due to the magnitude of social problems and the empirical ambiguity, there exists an
important normative research agenda. For example, the authors contend, it might be possible
to establish a moral duty for a company to act when it co-creates bad conditions or when there
exist unjust conditions from which the company benefits. A more general ‘duty of beneficence’
in business can be explored. Finally, they advocate an approach that embraces the dualism and
therefore sees ‘the tension between economic and broader social objectives as a starting point
for ... inquiry’ (II, p. 381).

Performance (Corporate Social and Financial Performance)

Marc Orlitzky, Frank Schmidt and Sara Rynes (Chapter 54) conducted an integrative meta-
analytic study of 52 previous statistical studies of the relationship between corporate social
performance (CSP) and financial performance (FP). They found that ‘corporate ... social
responsibility and, to a lesser extent, environmental responsibility [are] likely to pay off’. This
result challenges ‘the mainstream claim that we have little generalizable knowledge’ about the
CSP–FP relationship (II, p. 421). However, they report that CSP appears to be more highly
correlated with accounting-based measures of FP than with market-based indicators (that is,
share price-related indicators).
In a narrower context, Gary Simpson and Theodor Kohers (Chapter 55) study the relationship using a sample of companies from the US banking industry. In their study, social performance was measured using a ratings system that was established by the US Community Reinvestment Act 1977. This Act was passed in response to the controversial bank policy of red-lining particular housing districts (that is, not lending in that district), and it requires banks to ‘provide private funding for local housing needs and local development’ (II, p. 463). Simpson and Kohers report ‘solid’ evidence of a positive link between social and financial performance in this industry. However, they note that there is a possible context-specific explanation for this: if a US bank maintains high ratings, it appears that it is more likely to get approval from the relevant authorities for subsequent (commercial) acquisition proposals. Accordingly, in this case, social performance appears to be motivated by particular strategic considerations, as well as legal compliance.

This study suggests that, in general, the CSP–FP relationship is mediated by the policies of external agencies and institutions (government and NGOs). Since these often relate to specific industrial practices, Simpson and Kohers suggest that the social–financial performance relationship should be investigated industry-by-industry, not as a whole. By implication, social strategies should also be shaped according to the detailed circumstances of the business.

In a popular book, *Built to Last: Successful Habits of Visionary Companies* (2000), Collins and Porras described differences in performance between some companies which they described as ‘built to last’ (BTL) and a control group. The BTL companies apparently had an enduring sense of purpose, beyond just making money. In a subsequent study, reproduced here as Chapter 56, Samuel Graves and Sandra Waddock attempted to determine whether the particular BTL companies identified in the book ‘really did focus on “more than profits”‘ (II, p. 476). They found that these companies do ‘have better relationships with other important primary stakeholders’ (II, p. 495) and suggest that ‘quality of management’ is a key factor associated with both positive treatment of stakeholders and better financial performance (II, p. 497).

As is common in this area, a more detailed earlier study by the same authors of the CSP–FP relationship was subsequently challenged on methodological grounds – in this case by Abagail McWilliams and Donald Siegel (Chapter 57).

McWilliams and Siegel note that empirical studies of the CSP–FP relationship have generally reported mixed results. They re-examine a detailed study by Waddock and Graves (1997) in which a positive, but lagged, relationship was reported. The authors challenge that finding, together with related studies by other leading researchers, on the grounds that there was no attempt to control for two factors that are known to affect financial performance – namely, advertising and R&D expenditures. McWilliams and Siegel hypothesize a positive correlation between R&D expenditure and social performance due to the fact that ‘many aspects of CSR create either a product innovation, a process innovation, or both’ (II, p. 503).

Using data from the US company Kinder, Lydenberg and Domini, which provides detailed social performance information to institutional investors, they found a bias in previous studies, due to the fact that the positive significant coefficients in those studies could simply reflect the impact of R&D on financial performance. They infer that social performance per se has a neutral effect. This suggests (although the authors do not say this) that the CSR strategy of the firm might be reconceptualized, within the economic way of thinking, as a differentiation strategy based upon a set of R&D investments. In other words, it is nothing more than a
perceived attribute of a business – a matter of appearances. Furthermore, this perception of responsibility can be created through strategic investments in R&D, whose primary or real purpose is routine product and process innovation.

**Implementation (Implanting Ethical Strategy)**

As mentioned earlier (‘Trends’, p. xxi), many see a contemporary transition towards profit and away from ethics in business. However, Gedeon Rossouw and Leon van Vuuren (Chapter 58) claim that organizations can be encouraged to achieve a strategic state in which ethics is fully integrated into everything that they do. They identify five distinctive ‘modes of managing morality’. These are: (i) immorality, whereby unethical conduct is thought to be good business; (ii) reactivity, which involves token gestures; (iii) compliance, or the monitoring and accountability approach; (iv) integrity, whereby ethical values are internalized (as in ‘System 2’); and (v) total alignment.

Rossouw and van Vuuren identify the principal management challenges corresponding to each ‘mode’ or state, noting that there are several obstacles to achieving total alignment, especially cynicism. They then go on to consider the concept of a totally aligned organization (TAO). In this state, there is a ‘[s]eamless integration of ethics in corporate purpose, strategy and operations’ (II, p. 514). Totally aligned organizations have a well-developed sense of identity based on morally responsible interaction with stakeholders. For them ‘ethical behaviour is … strategically important’ (II, p. 521) and unethical behaviour simply undermines their identity. However, the dynamics of transition between the modes is not yet fully understood.

The Enron code of ethics infamously combined the ‘immorality’ mode (described above) with the ‘reactive’ mode. In a distinctive approach to the Enron story, Ronald Sims and Johannes Brinkmann (Chapter 59) invoke Edgar Schein’s theory of organizational culture. According to that theory, managers reinforce organizational culture by various means such as directing attention, acting as role models, allocating rewards and, especially, hiring and firing. Enron executives deployed every one of Schein’s methods in order to create a ‘morally flexible’ or immoral culture. For example, employees’ attention was focused completely on profit and share price support, but this involved deception. Rewards were based on winning financially at all costs, or else leaving the company. Corporate communications deployed a technical discourse, so that the booking of unrealized revenues was described as ‘early’ – a matter of timing rather than dishonesty. More often, the extremely highly paid ‘role models’ were simply non-communicative, giving the lie to ‘strong commitments to communication’ stated in Enron’s code of ethics (II, p. 531).

Sims and Brinkman extract several general lessons from this case. They particularly endorse the notion of making the new Enron CEO the ‘Chief Ethics Officer’ who should try to ensure that strategic changes have ethical substance (II, p. 535). Strategy should combine efficiency with respect for others and the protection of human rights. Enron’s worldwide activities in the 1990s completely lacked that type of substance and dual vision. Worldwide, the organization displayed the status symbols of corporate social responsibility, yet ‘Enron ethics’ has now come to be synonymous with ‘words contradicting deeds’.

The final essay in this collection is by Sandra Waddock (Chapter 60) who identifies several forces that are indeed working towards ‘making corporate citizenship real’ (see also Part III). These forces are being exerted by NGOs and transgovernmental bodies, including the UN’s
Global Compact, the Organization for Economic Cooperation and Development (OECD), the International Labour Organization (ILO), the Fair Labour Association, the Direct Selling Association (with their Code of Conduct), the Triple Bottom Line Reporting movement and Transparency International, to mention a few.

Using the Global Compact’s principles and the work of Transparency International as guides, it is clear that foundational principles do indeed now exist for guiding managers (see Soule, Chapter 48), in the areas of human rights, labour standards, environmental protection and the reduction of corruption. All the above entities are pushing towards the adoption by corporations of goals and practices that reflect these principles. This project is further supported by several national laws, such as the Sarbanes-Oxley Act in the US and laws in France and the UK that require pension fund managers to report how they deal with the ecological and social issues that are associated with their managed investment portfolios. However, there remains a long way to go. In early 2003, only 1000 out of nearly 70 000 MNCs had signed the UN’s Global Compact. By mid-2005, this had risen to over 2000 signatories, from 80 countries. However, if one compares this to, for example, the Total Quality movement in global manufacturing, it is clear that a slow start to important management trends is far from unusual.

References


Part I
Frameworks (Integrative Frameworks)
MAPPING MORAL PHILOSOPHIES: STRATEGIC IMPLICATIONS FOR MULTINATIONAL FIRMS

CHRISTOPHER J. ROBERTSON* and WILLIAM F. CRITTENDEN
College of Business Administration, Northeastern University, Boston, Massachusetts, U.S.A.

Strategic managers appear increasingly under pressure from stakeholder concerns regarding social and ethical issues. Partially in response, the supply of ethical decision-making models has grown rapidly. Business ethics scholars have broadened their scope to incorporate moral philosophies into their research endeavors. Despite these positive trends, the international focus of business ethics research has been slow to evolve. Yet, diverse moral philosophies, often most apparent across international borders, have important strategic implications for multinational firms. The ethical norms pursued by cross-cultural alliance partners, distributors, suppliers, customers, financiers, and foreign government agencies can create public relations disasters, foster shareholder unrest, lead to consumer boycotts, and impact organizational outcomes. We seek to rectify the deficiency in international business ethics scholarship with two distinct contributions. First, we develop a new cross-cultural, macro-level model of societal ethics. Second, we map moral philosophies onto an established framework for assessing socioeconomic environments. These theoretical tools should assist managers of multinational organizations, international policy-makers, and researchers to recognize and prepare for the ethical consequences of international strategic decisions.

INTRODUCTION

Business ethicists believe executives can achieve organizational and stakeholder benefits by effectively integrating moral philosophy into the strategic management process (Hosmer, 1994; Singer, 1994). Unfortunately, varying legal and cultural constraints across borders have made integrating an ethical component into international strategic decisions quite challenging. Further confounding the issue have been the criticisms and inconsistency of empirical research linking corporate social performance and financial performance (McWilliams and Siegel, 2000; Waddock and Graves, 1997).

Executives at multinational firms recognize that strategic implications exist at various levels of ethical decision-making in international operations. Concerns with environmentally sound packaging, workplace conditions, and ‘living wages’ are frequent subjects, among others, of media reports and shareholder referendums. The growth of nonprofit organizations devoted to corporate responsibility and the improvement of global work conditions highlight increasing expectations stakeholders have for multinationals.

Key words: moral philosophy; cross-cultural ethics; strategic decision-making

*Correspondence to: Christopher J. Robertson, College of Business Administration, Northeastern University, 313 Hayden Hall, Boston, MA 02115, U.S.A.
The body of knowledge known as moral philosophy provides an important foundation for business ethics research (Ferrell, Fraedrich and Ferrell, 2000). Each of the various moral philosophies developed identifies a different basis for rationalizing ethical decisions. Unfortunately, cross-cultural and macro-level ethics research of moral philosophies has been extremely limited (Husted, 1999; Robertson, 1993). However, if strategists are going to successfully satisfy evolving moral expectations across multiple cultures they need models to alert them to those factors that shape each society’s norms and values.

The purpose of this research note is to create a macro-level model that incorporates dominant moral philosophies in a cross-cultural context. This will help managers sort through the complexity and cultural misunderstandings that lead to ethical controversies. To further this end, a socioeconomic map of moral philosophies is also developed. As the basis for our model a brief review of relevant developments in cross-cultural research is presented next. The research model, moral philosophy map, and research propositions are subsequently proposed. The paper concludes with implications for strategy researchers and practitioners.

Global patterns and trends

Two developments in cross-cultural research that provide insight into global variations of morality are cultural relativism and convergence. Ethical relativism, a subset of cultural relativism, infers that ethical standards vary from culture to culture (Donaldson, 1996). For example, if bribery, or _bustarella_, were acceptable in Italy then the cultural relativist would add that the U.S. intolerance of bribery is no more or less ethical than tolerance of bribery in Italy. The polar opposite of relativism is universalism, or ethical imperialism, which is an ethnocentric belief that there should be a global moral standard (Donaldson, 1996). Extending this concept, Sen (1999) has argued that all members of the world population share some common values, such as freedom.

Convergence suggests the shifting of standards and norms globally. Supporters of the convergence approach contend that managers in industrialized nations exhibit common values regarding economic and work-related behavior (Ralston et al., 1997). Thus, as nations become industrialized values change significantly toward behavior that embraces free market capitalism (Webber, 1969). Conversely, the divergence view asserts that individuals will preserve culturally unique values despite the power of outside influences. Supporters of this view contend that a society’s values will be strong enough to fend off outside influences and will shape local managerial behavior regardless of economic changes or foreign influence (Ralston et al., 1997).

Difficulties associated with international research, coupled with a lack of global-scale antecedents, have tended to limit research focused on cross-cultural ethics. While a number of domestic ethical decision-making models have been developed (e.g., Rest, 1986), efforts at the international and strategic level have lagged. We seek to cultivate this research stream by developing a macro-level, cross-cultural model, which is presented next.

A MORAL PHILOSOPHY MODEL OF CROSS-CULTURAL SOCIETAL ETHICS

Based on prior model development by business ethics scholars, and relationships established by cross-cultural researchers, a moral philosophy model of cross-cultural societal ethics is proposed (see Figure 1). There are three unique contributions of this model that distinguish it from the work of prior researchers. First, it is primarily focused on the macro-level moral environment whereas business ethics research has traditionally been grounded in individual-level phenomena. Second, the model is built around moral philosophies, which have received minimal attention in the cross-cultural management domain. And third, it is designed to provide managers with a tool for understanding the moral views of their foreign counterparts.

The model commences with the interaction of economic ideology and culture (Ralston et al., 1997) as the basis for the overall moral environment in a society. It is this socioeconomic environment that determines the dominant societal moral philosophy. Relatedly, a number of macro-level and societal factors moderate this relationship between the socioeconomic environment and the dominant moral philosophy. Macro-level variables such as the munificence of natural

Economic Ideology: Capitalism versus Socialism

Culture: Western versus Eastern

Macro-level Moderators:
- Natural Resources
- GDP per Capita
- Form of Government
- Political stability

Societal Moderators:
- Language
- Religion
- Historic traditions

Note: Shaded regions represent current model's contribution to societal-level ethics scholarship

Focus of research propositions

Moderating variables

Figure 1. A moral philosophy model of cross-cultural societal ethics

resources, relative wealth, and the type of government and its stability, help shape the general public’s moral paradigm (Husted, 1999). Societal moderators, such as language, religion, and historic traditions, also influence the determination of a generally accepted moral view (Wines and Napier, 1992). An additional set of moderators includes firm-specific factors such as corporate culture, policies related to unethical behavior, and the financial status of the firm. After traversing this macro-level model to ascertain the moral philosophy in a society, individual-level concepts such as situational contingency factors and moral reasoning can be examined (Trevino, 1986).

MORAL PHILOSOPHY, ECONOMIC IDEOLOGY, AND CULTURE

Although numerous moral philosophies have been developed, business ethics scholars have focused on the philosophies deemed most relevant to managerial practice (Ferrell et al., 2000). Consistent with this pattern we employ five theories that carry the strongest conceptual link to our macro-level, multicultural focus: egoism, utilitarianism, formalism, virtue ethics, and moral relativism. Each of these theories has received considerable attention in the literature (i.e., Fritzche and Becker, 1984) and will be explained in the following ‘Mapping moral philosophies’ section. While other moral theories exist, such as justice (Rawls, 1971), we have selected the five theories above because they appear to be most applicable to our economic and cultural dimensions.

Economic ideology and culture

Two of the most fundamental influences organizations and managers face in an international setting are economic ideology and national culture (Ralston et al., 1997). Indeed these two variables set the tone for generally accepted business practices and the moral environment of a country. Economic ideology has been defined as ‘a workplace philosophy’ and essentially encompasses the continuum of beliefs that range from capitalism to socialism (Ralston et al., 1997). The distinction between these two polar views rests in the belief in the maximization of one’s own interests (capitalism) vs. the maximization of the interests of the group (socialism). Moreover, the free-market philosophy of capitalism suggests that individuals pursue self-interests which may ultimately promote societal good despite initial personal intentions (Smith, 1776).

Hofstede’s (1980: 21) definition of culture as ‘the collective programming of the mind which distinguishes the members of one human group from another’ has been one of the most accepted by cross-cultural researchers. Ralston et al. (1997) extended this thinking and focused on keen differences between Eastern and Western cultures, with an eye toward economic ideology. They argued that the interface of this East-West dyad is relevant and salient because of sharp cultural differences and since the magnitude of trade between these groups has expanded rapidly in the past two decades. While the teachings of Confucius and the dominant religions of Buddhism and Taoism have influenced group dynamics in the East, the Judeo-Christian notion of individuality has permeated Western value systems (Ralston et al., 1997).

Additionally, Hofstede (1980) found that power distance, the acceptance of power imbalance, and collectivism were much stronger in the East than in the West. Earlier, Kluckhohn and Strodtbeck (1961) developed a number of value orientations, such as relationships among people and space orientation, which also identified significant cultural differences between Eastern and Western cultures.

Mapping moral philosophies

In Figure 2 a cross-cultural map of moral philosophies is provided. The two axes, culture and economic ideology, are based on Ralston et al.’s (1997) four-country study of work values. Culture, the horizontal axis, runs along a continuum from Western to Eastern. Economic ideology, the vertical axis, ranges from socialism to capitalism. A cell representing each of the moral philosophies has been placed on the chart based on its relation to the two axes. Egoism, for example, rests in the upper left corner of the diagram. This placement indicates a strong Western culture coupled with a near-pure capitalist economic ideology, such as the United States. By definition, egoism consists of a highly individualist moral code (Ferrell et al., 2000) which is dominant in both capitalist and Western cultures. An example of a Western socialist culture might be Sweden or Norway. Japanese life embraces both Eastern values and a capitalist economic system. The final quadrant,
Eastern—socialist, is representative of Chinese or North Korean society. Research propositions will be developed next based on each moral philosophy’s positioning in Figure 2.

**Egoism**

Egoists define the world in terms of their own self-interests. A society that upholds egoism as a dominant moral philosophy will have a number of severe individualists who define unethical behavior in their own subjective terms (Epicurus, 1963). The egoist creed has been dubbed as (Ferrell et al., 2000: 54), ‘do the act that promotes the greatest good for oneself.’ Hofstede’s (1980) notion of individualism and Kluckhohn and Strodtbeck’s (1961) individualistic value orientation both depict cultures where individuals place their own goals above those of society.1 This emphasis on individuality is generally associated with Western cultures and a capitalist economic ideology (Ralston et al., 1997). Thus,

**Proposition 1:** In societies with a strong Western culture and a capitalist economic ideology, egoism will be the dominant moral philosophy.

**Utilitarianism**

While utilitarianism emphasizes the consequences of an act, the desired goal is to seek the greatest good for the greatest number of people (Fritzsche and Becker, 1984; Mill, 1971). Many utilitarians employ the equivalent of a social cost–benefit analysis to determine which activity will maximize the good of the general public. Decisions that create personal gain at the expense of society’s gain are considered unethical by pure utilitarians (Fritzsche and Becker, 1984). Protecting the rights of society is embedded in the socialist of several nations, and there may be a variety of social groups within one nation. Thus we refer not only to “national” societies but also to groups within nations and groups that bridge two or more nations.

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1 We refer to ‘society’ as an organized group of persons who share certain values related to religious, scientific, patriotic, or other purposes. Mendenhall, Punnett, and Ricks (1995: 77) define societal variables as those that ‘may be shared with people

Figure 2. A cross-cultural map of moral philosophies
economic ideology. From a cultural perspective, the utilitarianism emphasis on group welfare reinforces the Eastern value of collectivism (Hofstede, 1980). Moreover, the notion of decision-making while incorporating societal goals falls in line with Kluckhohn and Strodtbeck's (1961) public space orientation. Thus,

Proposition 2: In societies with a strong Eastern culture and a socialist economic ideology, utilitarianism will be the dominant moral philosophy.

Formalism

The primary thrust of formalism is the focus on rights and associated moral intentions (Locke, 1952). A formalist rejects utility related to the consequences of the behavior and focuses strictly on the actions involved. Formalism emphasizes certain absolute rights, which include freedom of conscience, freedom of privacy, freedom of speech, and due process (Cavanagh, Moberg and Velasquez, 1981). These emphases on privacy and freedom are strong individualist phenomena and less likely to be found in collectivist societies. From an economic perspective, formalism, with its deontological emphasis on actions, would appear to thrive in a more centrist ideology. Neither the egalitarian appeal of socialism nor the market-driven approach of capitalism appears to carry strong theoretical ties to formalism. Hence,

Proposition 3: In societies with a strong Western culture and a mixed economic ideology, formalism will be the dominant moral philosophy.

Virtue ethics

The fundamental basis for virtue ethics is a set of virtues that is deemed morally valid regardless of the actions or outcomes (Aristotle, 1911; Maitland, 1997). This paradigm posits that 'what is moral in a given situation is not only what conventional morality or moral rules (current societal definitions), however justified, require, but also what the mature person with a 'good' moral character would deem appropriate' (Ferrell et al., 2000: 54). Select virtues that are salient in business dealings include trust, self-control, empathy, fairness, and truthfulness (Ferrell et al., 2000; Maitland, 1997). Behavior is deemed unethical based on violations of these virtues. The emphasis on trust positions this theory slightly in the direction of Eastern cultural values (Hofstede, 1980). Therefore,

Proposition 4: In societies with an Eastern-leaning culture and a mixed economic ideology, virtue ethics will be the dominant moral philosophy.

Moral relativism

The premise of moral relativism is in defining acceptable ethical behavior in the context of certain key individuals or in-groups (Ferrell et al., 2000). It is not uncommon for a relativist to justify actions based on the consensus of fellow workers or a certain executive. This focus on the standards of peers is more frequently occurring in socialist-leaning societies where people see each other as equals. The capitalist economic ideology tends to foster more individuality and respect for legislated standards (Webber, 1969). Culturally, relativism tends to be mixed between Eastern and Western values, with a slight lean toward the West due to the somewhat private, or personal, nature of focusing on firm or industry ethics. There also seems to be less inherent trust involved with relativism in that the rules of society and people who are not members of the in-group are viewed with suspicion (Hofstede, 1980). Thus,

Proposition 5: In societies with a Western-leaning culture and a moderately socialist economic ideology, relativism will be the dominant moral ideology.

Role of moderators

As depicted in Figure 1, a society's dominant moral philosophy, or philosophies, will be impacted by macro-level and societal moderators (Treviño, 1986; Wines and Napier, 1992). Locational shifts in the positioning of moral philosophies shown in the cross-cultural map of Figure 2 depend on the power and influence of such moderators. As a society culturally or economically converges, or diverges, the potential for a societal moral shift is likely to follow suit. Further, commonality in language, religion, or historic tradition will bring people together and moderate the individualist egoism construct. At
extremes, fragmentation may cause a narrowing in the definition of relevant groups that are justifiably included when emphasizing solidarity and group welfare. Relatively, political instability and economic downturns impact views regarding privacy, due process, rule consensus, law, and issues of trust. This in turn leads to philosophical instability and/or a multiplicity of dominant yet conflicting values.

CROSS-CULTURAL STRATEGIC BUSINESS ETHICS IMPLICATIONS

The macro-level model proposed in this paper was designed to help assess a given culture’s ethical orientation. With global expansion managers are increasingly faced with applying individual moral values and corporate paradigms across varying strategic ethical decisions (e.g., outsourcing). By understanding the influential variables and likely dominant moral philosophies, policymakers and strategists charged with establishing organizational codes of ethics, developing corporate training programs, and implementing local decisions can be better prepared for the implications of their decisions and actions. In addition, managers operating in different cultural contexts will be more able to legitimize their decisions to stakeholders.

From a research implications perspective, the proposed model and map add to the theoretical development of cross-cultural ethical decision-making. Performing an empirical test of the model would be extremely beneficial as the number of empirical studies in cross-cultural ethics is clearly deficient (Hosmer, 2000; Robertson, 1993). This could be accomplished with a research design comparable to Ralston et al.’s (1997) study in which managers from selected nations are queried about their cultural values. Further, a section of vignettes similar to those employed by Fritzsche and Becker (1984) could be included to measure moral philosophy beliefs. Empirical exploration of other dimensions of culture (e.g., individualism vs. collectivism, orientation toward power, and concept of time) would be prudent and is necessary if this research area is to move forward. Further, while prior research established that individual and firm-specific moderators were critical to predicting ethical decision-making and behavior in a business context, our model goes further by integrating a cross-cultural perspective and additional moderating factors, which reveal future research opportunities (Trevino, 1986).

When attempting to make generalizations about nation states the notion of subcultures and economic class levels within a society cannot be overlooked. Indeed, the Israeli living on a Kibbutz tends to have more of a socialist ideology, while capitalism is likely to dominate the thinking of the Tel Aviv banker. The Chinese immigrant in New York or Boston tends to embrace capitalism while proudly maintaining Eastern values. Clearly, the dominant moral philosophy of each subculture is reflective of the overall communal value-set. From an economic disparity perspective differences within nations are also crucially important, and this is especially pertinent to the developing world. The dominant moral philosophy in Delhi is probably quite different from that of Bihar.

Our cross-cultural map of moral philosophies should provide additional insight into the relativism and convergence debates. The theoretical establishment of a society’s dominant moral philosophy assists in defining clusters or groups of nations that have comparable moral paradigms. Moreover, the tracking of moral philosophies over time, and the potential for empirical validation, adds to our knowledge of whether a society is in a convergent, divergent, or cross-vergent mode. Ethics officers from industry would also be able to make more prudent decisions regarding the global uniformity of corporate policies.

With global expansion and heightened public awareness of ethical issues, managers must guide their organizations in a world where moral intuition and ethical standards are neither intuitive nor standard. In proposing a moral philosophy model of cross-cultural societal ethics, we contribute to a growing body of literature useful to multinational managers and foreign trade officials. Understanding the factors that most influence a region’s societal norms will enhance multinational managers’ abilities to recognize potential ethical consequences and thus make decisions that engender stakeholder trust, a prerequisite cited by Hosmer (1994) for competitive and economic success over time. Similarly, awareness by government policy-makers can aid understanding of the moral trade-offs that may be acceptable to potential trade partners.
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