Strategy and Ethics: an Organising Framework

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ABSTRACT
The vast literature dealing with the relationship between business strategy and ethics is classified into sixteen distinct sub-themes (e.g. market limitations, trust, performance, etc.). An organising framework is then set out, based upon the classical idea of a dualism that also has several components (involving values-priorities, ethical theories, language usage, etc.). Experience so far suggest that a simple framework based upon dualism is very helpful indeed for contemporary researchers and students as they encounter a growing and controversial literature in areas such as sustainable business, business and society, globalisation, stakeholder management, strategic management, critical management and business ethics.

Keywords: strategy, ethics, dualism, organising-framework

INTRODUCTION

Recently, the author conducted an extensive search of mainstream journal articles that specifically deal with interrelationship between the fields of strategy (e.g. *Strategic Management Journal*) and ethics (e.g. *Business Ethics Quarterly*). The immediate purpose was to compile an edited set of articles for contracted publication by Ashgate (UK) under the heading "*Business Ethics and Strategy*" within their current series on the "Public and Private Ethics". As a spin-off from this project, two classification schemes were developed and are elaborated in this paper. In the following section, representative references are described for each of sixteen identified "themes" involving both strategy and ethics. Then (in section 3 & 4), a more comprehensive organising framework is proposed for all contributions in this area, based on the ancient idea of a dualism in nature, whose components involve *inter alia* values, ethics, and politics. Although this notion of "dualism" is ancient, experience so far suggest that it is very helpful for contemporary researchers and students who encounter a disparate literature in such areas as sustainable business, business & society, stakeholder management, strategy, social-entrepreneurship, critical management and business ethics, to mention a few.

OVERVIEW OF THE MAIN THEMES

The main themes that fall within a broadly conceived strategy~ethics relationship are listed in Table 1 (first column). They are (1) *conceptual frameworks* that explicitly integrate business strategy and business ethics, (2) *economics* and the ethical aspects of economic theories, (3) *globalisation* and the notion of the corporation as a global citizen, (4) *market limitations* and the ways in which business strategies can respond to them, (5) green business strategy, sustainability and the *environment*, (6) *stakeholder* theories and management orientations, (7) *models* and the apparent need to choose amongst various distinctive conceptual and formal models of business strategy, (8) *game theory* and its interpretations, (9) *trust*, trustworthiness and trust-building in business, (10) *lobbying* and corporate citizenship, (11) *corruption* in relation to strategy, (12) *poverty* and how it affects and is affected by business activity, including philanthropy, (13) *knowledge* and the ethical issues associated with intellectual property, (14) some distinctive *holistic* approaches to thinking about the strategy ~ ethics relationship, (15) *performance*, that is, evidence about the link between corporate social and financial performance, and finally (16) *implementation* or ways of implanting ethics and strategy in organisations. Each is very briefly discussed below

Frameworks

The papers that set out explicit integrative frameworks are almost all based upon a perecieved correspondence. For example, Robertson and Crittenden (2003) placed concepts in ethics relative to the categories used in strategic management, with an emphasis on describing the "social and economic macro-environment". In another framework (Reynolds, 2003) the particular strategy concept of integration was placed relative to the ethical concept of justice; whilst the strategy concept of "responsiveness" is likened to the ethical concept of caring. Previously, in a paper entitled "strategy as moral philosophy", the present author set out a more comprehensive mapping between more than 40 distinctive forms of rationality and concepts in the strategy literature. These "correspondence" approaches are all within the tradition of philosophical pragmatism. Using a different approach, Quinn & Jones (1995) characterised the relationship between business ethics and strategy in terms of logically necessary priorities for corporate managers.

Economics

Several prominent economists have considered specific aspects of business ethics in relation to strategy. Narveson (2003) gave an account of the invisible hand argument, noting that "the morality of the market forbids only force and fraud; it does not require people to benefit others." This amounts to an argument for business as usual, but it is also a perspective from just one side of the dualism (see section 3). Earlier, Hosmer (2001) reviewed of the inter-relationship of economics, ethics and business strategy, emphasising that each of these three subjects can be richly informed by the others. According to Sen (1997) the economic way of thinking does indeed down-play the role of ethics.

However, ethical conduct can deeply influence an economy and, according to Sen, the study of "business principles and moral sentiments" has become "a rich source of understanding."

Table 1. The main themes linking strategy with ethics

THEME	SELECTED REFERENCES	SAMPLE SUB-THEMES
Integrative Frameworks	Robertson and Crittenden (2003), Reynolds (2003), Quinn & Jones (1995), Singer (1994)	correspondences, domains, dependencies
Economics& Ethics	Narveson (2003), Hosmer (2001), Sen (1997)	invisible hand, rationalities, co-determination
Globalisation	Dobson (2001), Logsdon & Wood (2002), Collier (2000)	co-existence of views, business citizenship, property rights
Market limitations	Prakash Sethi (2003), Quinn & Jones (1995)	accountability for distribution, monopolistic tendencies
Environment	Starkey & Crane (2003), Rugman & Verbeke (1998), Shrivastava (1995)	narratives, levels of regulation, advantages, sustainability
Stakeholders	Jones & Wicks (1999), Freeman (1999), Jawahar & McGlaughlin (2001)	normative, instrumental, empirical, narratives, timing
Models	Calori (1999), Davis *et al* (1995), Donaldson & Preston (1995)	epistemology, biases, choices
Game theory	Solomon (1999), Binmore (1999), Gilbert (1996)	metaphor, duty, rationality, emotions, rhetoric
Trust	Brenkert (1998), Hosmer (1995), Barney & Hansen (1994)	market & social, types & levels, normative & empirical, advantages.
Lobbying	Oberman (2004), Brooke-Hamilton & Hock (1997)	contestability, private & public interests
Corruption	Robertson & Watson (2004), Schnatterly (2003)	crime, performance, effects of FDI
Poverty	Singer (2006), Prahalad & Hammond (2002), Freeman (1998)	BoP - markets, intentions, attitudes
Philanthropy	Saiia *et al* (2003),	Strategy, altruism, ideology
Knowledge	Zeleny (2005), Resnick (2003)	wisdom systems, IPR
Holistic themes	Margolis & Walsh (2003), Soule (2002), Werhane (1998), Dobson & White (1995)	ambiguity, beneficence, moral-principles & imagination, gender
Performance	Orlitsky *et al* (2003), Simpson & Kohers (2002), McWilliams & Siegel (2000)	meta-analysis, industry-specific, ambiguity & controversy
Implementation	Waddock (2004), Rossouw & van Vuuren (2003)	Global Compact & TI etc., modes, alignment.

Globalisation

According to Dobson (2001), the notion of the economy as a "wealth creating machine", remains the foundation of many WTO policies. An alternative of business as a "community of excellence" is derived from virtue ethics and is essentially the view adopted and propagated by NGO's. However, in a capitalist system, the "machine" and the "virtuous craftsman" views can co-exist. Logsdon & Wood (2000) also deploying the "correspondence" thesis (above) noted that the category of "citizenship" has minimalist (libertarian), communitarian and universalist interpretations that correspond to profit maximisation, multi-domestic and global integration business strategies, respectively. Thus, in the choice of corporate strategies, worldwide human rights are very much at stake. Jane Collier has emphasised the imperative to preserve "the basic human dignity of those disadvantaged by (globalisation)" and is particularly concerned about the effect of intellectual property regimes on distributive justice (see also 2.13 below).

Market Limitations

In harmony with the latter observation, Prakash Sethi (2003) noted that some corrective mechanism is needed in order to overcome some particular known limitations of markets: the exploitation of market power by corporations and the lack of any guarantee of distributive justice. He argued that "corporations should be held accountable for a more equitable distribution of above-normal profits with other groups" especially where those groups "were deprived…because of market imperfections and corporate power." Haksever, Chaganti & Cook (2003) reinforced the latter idea when they explained how the decisions of corporate managers can "destroy value" for stakeholders. Singer (2003) also developed the idea that corporations might consider augmenting their strategies, in order to overcome the specific known limitations of market based systems.

Environment

A paper by Starkey & Crane (2003) on green business strategy cast the strategy ~ ethics dualism (see below) in terms of competing "narratives". In line with the sustainability movement, they expressed concerns that (i) modern organizations "privilege" profitability and marginalise concerns about living systems, (ii) that management thinking is based on "mechanistic" beliefs and values, and (iii) that business practices contribute significantly to ecological problems, They suggest (like many others before them) that ecological understanding can be an impetus for change. Rugman & Verbeke (1998) had examined global environmental regulations and their likely influence on corporate strategy. They note that multinational enterprises generally need to consider 5 different levels of regulation and they set out some strategies for dealing with this. Shrivastava (1995) described just one of these strategies when he explained how environmental technologies can be used to gain competitive advantage.

Stakeholders

Jones & Wicks (1999) reviewed several versions of stakeholder theory, particularly the instrumental and the normative versions. They then proposed the development of a “convergent” or hybrid stakeholder theory that would demonstrate how managers can create morally sound approaches to business and make them work. In contrast, Edward Freeman, whose works have been at the centre of much of the debate about stakeholders in business, argued that distinctive narratives about stakeholders “are better understood if they are left alone.” He reminded us that the term “stakeholder” is an “obvious literary device, meant to call into question the emphasis on stockholders”. In another noteworthy paper, Jawahar & McLaughlin (2001) recast the shareholder –stakeholder debate in terms of timing: during the start-up stage of a business, for example, managers will be pro-active towards stockholders, creditors and customers; but “be defensive” towards government and community. This can change at other stages of the life cycle.

Models

The existence of rival stakeholder and shareholder theories raises a larger question about the status and interpretation of all strategic management models and theories. Calori (1999) examined this question, offering a wide-ranging critique of “orthodox” models. In fact, he says, “strategic management” is all about retaining power and defending privilege, with the associated emotions and dubious ethics. Davis, Schoorman & Lex Donaldson (1997) contrasted the agency model (shareholder value) with the stewardship (stakeholder) model. The former assumes “opportunistic and self-serving” behaviour, but stewardship theory assumes that subordinates are “collectivist, pro-organizational and trustworthy”, Tom Donaldson & Preston (1995) also considered the idea of managers choosing amongst alternative but contrasting models, such as the input-output model of the firm (i.e. an engineering view) and the stakeholder model.

Game theory

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 and theory *per se* and its likely moral effects on the behaviour of those who study it. Solomon (1999), for example, commented that the theory is “dangerous and demeaning”. Ken Binmore (1999), a pre–eminent game theorist, responded to Solomon by noting that the principles of game theory are in fact “ethically neutral”, like 2+2 = 4. Previously, Gilbert (1996) had pointed out that the prisoner’s dilemma game is widely taught because it is an “elegant story that is *easy to explain to today’s students*”, but that “on a post-modern view, the PDG is not a fact of nature, it is a rhetorical device”. .

Trust

The concept of trust is quite prominent in game theory and the strategy ~ ethics nexus. Brenkert has noted that “within the market, trust requires special efforts and commitments that it does not require in ordinary social life” and that “the conditions for fostering trust can also foster international business ethics more widely”. Barney & Hansen (1994) distinguished several types of trust that together determine the optimal strategy for profit. A managerial attitude of trust towards employees can be a source of competitive advantage, but typically, the trustworthiness of exchange partners varies, so a full knowledge of this situation can itself confer a competitive advantage. Hosmer (1995) then noted that the definitions of “trust” found in empirical psychology and organisation theory incorporate moral values, so that “trust” lies at the confluence of normative and empirical theories.

Lobbying

In corporate lobbying, powerful players disproportionately influence the rules, so it seems unethical and unjust. More generally, Brook-Hamilton & Hock (1997) noted that lobbying by businesses can promote corporate self-interest, or the public interest, or both. They concluded that business lobbying can be a socially responsible activity, but it needs to be “restrained by ethical standards” involving respect for human rights and fair distribution. Oberman (2004) then set out a more permissive account, arguing that as long as the political system remains contestable, corporate lobbying is “legitimate”.

Corruption

When business lobbying excludes others, or results in significant harm, it is comparable to bribing a public official. Accordingly, bribery corruption is another major theme linking strategy with ethics, although it is not considered much in the business strategy literature. One exception is Robertson & Watson (2004) who related perceived corruption in a country to inward foreign direct investment (FDI). Another study by Schnatterly (2003) noted that white-collar crime effects business performance, but is also affected by organisational structures and processes. For example, he cited data indicating that white collar crime costs about 1-6% of sales, which is greater than many profit margins (and one might add, much greater than the likely benefits from using formal strategy models.)

Poverty

The role of business enterprises in poverty reduction remains controversial. A mainstream view sees that profit-maximising businesses can create wealth, but they do not have an interest in re-distribution. An alternative view sees that business should have a dual vision or mixed motives that include the reduction of poverty. Prahalad & Hammond (2002) told a persuasive story of a benevolent global capitalism-as-usual in which bottom of pyramid (poverty) markets are "served", women entrepreneurs and consumers are duly honoured and high-tech infrastructures spreads, through private enterprise. Freeman (1998) is amongst those who see that stakeholder capitalism, not business as usual, is the much needed solution to poverty. The stakeholder idea has substance and it can lead to wider changes in peoples' general attitudes. Numerous NGO's are currently advocating and facilitating this latter approach and way of thinking.

Knowledge

Zeleny (2006) has recently re-framed the strategy ~ ethics relation in the context of a knowledge economy. He re-described knowledge as the "purposeful co-ordination of action" and wisdom as "socially accepted or experience- validated explication of purpose". If we are wise, our actions will automatically communicate our purposes, although the language of ethics and politics can be deployed to reinforce that message. With regard to IPR, Resnick (2003) has acknowledged the "sense that intellectual property increases disparities". He noted that a variety of other "moral values" and arguments can be used to justify intellectual property (not to mention other aspects of strategy). In practice, he says, the best approach is *pragmatic*; that is, to "assess and balance the competing moral values in light of the particular facts and circumstances".

Holistic approaches

Another theme embodies several unusual holistic approaches to linking ethics and strategy. Soule (2002) perceived an urgent need for "a few good moral principles" that can help managers. These principles must be specific, but also capable of dealing with the complicated loyalties and obligations that are encountered in business. Werhane (1998) focused upon managers' existing mental frameworks and their lack of “moral imagination”. It is often necessary to “break out of ones own schema” in order to properly assess any strategic situation. This, in turn, stimulates the discovery of new possibilities for ethical action. In another distinctive approach Dobson & White (1995) re-cast the strategy~ethics relationship in terms of gender differences. They see a strong male gender-bias in business theory and practice, but they link the stakeholder view of the firm with a grand theme of “nascent economic woman”.

Performance

Orlitsky, Schmidt & Rynes (2003) conducted a meta-analytic study of 52 previous studies of the empirical relationship between corporate social performance (CSP) and financial performance (FP). They found that corporate social responsibility and to a lesser extent environmental responsibility are indeed “likely to pay off”. Similarly, in the banking industry, Simpson & Kohers (2002) reported “solid” evidence of a positive link between social and financial performance,. However, they note that that there is a possible context–specific explanation for this. Then, using detailed social performance information, McWilliams & D Siegel (2000) found that previous large studies (e.g. Waddock & Graves, 1997) failed to control for R&D investment levels, even though “many aspects of CSP involve product and process innovation”. They concluded that social performance *per se* actually has a neutral effect on financial performance. Accordingly, Margolis & Walsh (2003) noted that the empirical research findings on the relationship between corporate social and financial performance are in general ambiguous; this “reinforces rather than relieves” the tension surrounding the strategy ~ ethics relationship. In the spirit of philosophical pragmatism, this makes the ambiguity “a starting point for inquiry”.

Implementation

Finally, with regard to implementation of strategy and ethics (Table 1 last row) Rossouw & van Vuuren (2003) identified five distinctive “*modes* of managing morality”: (i) immorality, (ii) re-activity, (iii) compliance, and (iv) integrity, whereby ethical values are internalised. In the fifth state there is a “seamless integration of ethics into corporate strategy”. Waddock (2004) also identified several *forces* that are currently working towards making corporate citizenship “real”. The “forces” are being exerted by the UN’s “Global Compact”, the OECD, the ILO, the Fair Labour Association, the

Triple Bottom Line Reporting movement and Transparency International, to mention a few. This project is also supported by many specific laws at the national level.

AN ORGANISING FRAMEWORK

Classically, it is often said that "strategy" is associated with war (Sun Tzu's *Art of War)*, whilst ethics is broadly associated with peace. Now, it often seems that the entire literature about modern business ethics and its relation with strategy can be read as a vast elaboration of this dualism. Yet this is hardly a new idea, for the Pre-Socratic philosopher Protagoras wrote (c480BC) that in the face of any uncertainty "two opposing theses can confronted" and he went on to state that "it is wise to strengthen the weaker argument, because it might contain the best answer". The strategy ~ ethics "opposing theses", dualism and ambiguity can be cast in many ways. Each of the articles cited above, indeed *all* written contributions in the area, turn out to be structured around selected components of a dualism, or in some cases a few themes that span both sides (refer to Figure 1). The main "components" of the dualism (values, ethical theories, market limitations etc.) are briefly elaborated below.

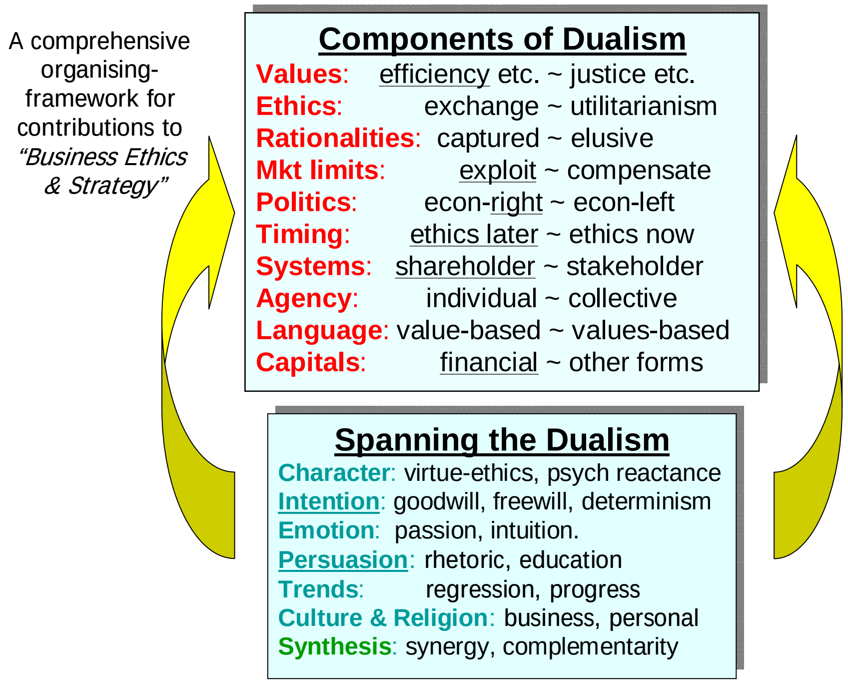
Values

Most people agree that the set of all human values can be partitioned, with one side associated with *efficiency*, craftsmanship and free-exchange, the other side involving distributive *justice*, care, avoidance of harms and the protection of human rights. The former set are embodied in what Amartya Sen (1987) has called the "engineering view" of economics and re often associated with the male gender, whereas the latter are "female" (e.g. Dobson & White, 1995).

Ethical theories

In almost every textbook on business ethics, together with several more recent strategy books, one finds an account of the main ethical theories. These can also be partitioned. On the side of profit-maximisation (the same side as efficiency, etc.), one finds the economic principle of aggregate utility maximisation governed by price. Here, one also finds ethical egoism. In addition, most aspects of contractarian theory can be placed on this side, because of the central idea of agreements amongst free self-interested individuals. On the other side of the dualism, one finds Utilitarianism (which alliognes with the multi-stakeholder model). Deontological ethics (Kantian capitalism) also belongs here, along with the justice aspects of contractarianism (e.g. Rawls, 1972).

Figure 1. An organising framework for articles on the strategy ~ ethics relationship



Rationalities

There also exist many distinctively forms of rationality, defined across the entire spectrum of the social sciences. Again, the set of such "forms" can be partitioned. The first sub-set specifically involves preferences and desires. The second set involves higher level meta-preferences; that is, some kind of reflection and deliberation on those lower level desires.

Market limitations

The above distinction between preference and well-being is one of several known limitations of market based systems (KLMBS). Others involve negative externalities, monopolistic tendencies and social or distributive justice As mentioned previously, business entities are often in a position to either *exploit* the various KLMBS, or else to try to deliberately *compensate* for them.

Political leanings

The article of faith that favours the former exploitative type of competition (or hyper-competition) is associated with right-leaning politics that tends to champion individualism and the powerful. The left (liberal-democrat, social-democrat, socialist) place more emphasis on distributive justice, care-based ethics and the communities (variously conceived). The left also broadly tends to favour social and environmental policies based more directly upon available scientific understandings (e.g. the sustainability and stewardship views).

Timing

The dualism can also be re-cast as a partitioning of *time that is "ethics now"vs. "strategy now with* ethics *later*". Many believe that "strategy" (profit maximisation) provides the means to achieve wealth, enabling ethical "ends" such as redistribution or restoration to be pursued later. 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*).

Systems (stakeholder & shareholder)

Several components of the foregoing discussion can be brought together into dual descriptions of the business "system". In *System 1* stakeholder relations are viewed as a means to create wealth. NGO's are viewed as a worthy opponent, governments are lobbied in pursuit of narrow interests. In *System 2,* strategic entities have authentically mixed motives. Managers believe they can protect themselves from dissenting shareholders by arguing that the strategy is at least consistent with commercial goals. NGO's and governments can be genuine partners in joint strategic and ethical missions. A variant of *System 2* exists elements become enshrined in law (cf. Margolis & Walsh, 2003; Waddock, 2004).

Moral agency

The difference between the above "systems" has been linked to the philosophical question of individual vs. collective moral agency. Milton Friedman (1970), for example, famously linked his claim that "the social responsibility of business is to increase its profits" (i.e. system 1) to the idea that ethics and morality are exclusively the qualities of individuals, not companies. Many others (e.g. Pruzan, 2001; French, 1984) have argued to the contrary.

Language

A lesser-noticed but very important component of the dualism involves the dual-use of English language, in ways that amount to trans-valuation (i.e. good becomes bad). For example, the term "*value* based management" refers to shareholder wealth; but it has *also* been used to refer, perhaps more obviously, to the care-based "values" embodied in the stakeholder and stewardship models.

Similarly, the terms “human *capital*, social capital and ecological capital have all been associated by various authors with the stakeholder model; whereas “financial capital” (along with manufactured capital and knowledge capital) are associated with business-as-usual, that is, the other side of the “dualism”.

Trends

The final component of the dualism involves perceptions of long-term social and political trends. Optimistic observers see an underlying long term trend of moral progress, whilst pessimists see a deterioration or moral regression. For example, Hosmer (2001) described “a definite movement towards an expanded view that includes the interest of other persons”. Logsdon & Wood (2002) predicted that “global corporations are likely to join the ranks of enforcers (of human rights)...” Yet at the same time, many corporate executives are pre-occupied with data security and physical security; the Enron scandals have taken place, corporate philanthropy in the USA has become increasingly “strategic” rather than altruistic (e.g. Saiia, Carroll & Buchholtz, 2003), whilst the Human Rights situation appears mixed.

SPANNING THE DUALISM

As mentioned at the outset, there are some additional recurrent themes that **span** this dualism: they inform both sides and in some cases imply a unification or synthesis. These 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.

Character

The philosophy of virtue ethics emphasises the character of the individuals involved in any business activity (e.g. Solomon, 1999). This theme spans the dualism, because character is associated with the values most prominently embodied in a business strategy. The motive to excel (excellence in business) is prominent in virtue ethics. However, virtue ethics also sees that a caring attitude and a commitment to human ideals is a matter of character.

Intention

The timing component of the dualism, pre-supposes that human intentions actually have some effects (whether they be noble or evil, strategic or ethical). Theories of business strategy and of ethics both attach great importance to goals and intentions, together with implementation (see the final section of this collection). However, in both strategy and ethics (hence the “spanning”) it is also recognised that the outcomes of a plan or a project might not match those intentions. In ethics, Kant emphasised only the quality of human intentions. To be ethical, he argued, a strategy must be based upon genuine goodwill towards others. Whether it succeeds is of lesser moral significance. In business strategy the Kantian emphasis is typically reversed.

Emotion

It is sometimes said that the theory and practice of business strategy is based exclusively upon reason, (e.g. Calori, 1999) whereas ethics is purely emotional. However, there are indeed many important ways in which emotions can enter into strategy, whilst reason and ethics are very far from being incompatible. Classically, for example, Plato identified a megalothymic passion for power and wealth, as well as an isothymic passion for justice, or ethics. Currently, the role of emotion and intuition is being taken seriously in the nascent field of neuro-economics.

Persuasion

The entire literature on strategy and ethics is crammed with persuasive assertions and stories (cf.. Freeman, 1999) all 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 recruitment appeals: “join our business ethics movement and go with the flow”, so to speak. Claims of moral regression also read like appeals for urgent action at the political level in order to reverse some disturbing trend, or to avoid the next apocalypse. This contrast between neutral fact and rhetoric in the area was mentioned earlier in connection with game theory.

Synthesis

Finally, many contributions have advanced the idea of complementarity, synthesis or synergy, involving strategy and ethics. Hosmer (1995) 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) etc. A similar mixture was also of course implicit in the dual works of Adam Smith: *The Wealth of Nations* and *The Theory of Moral Sentiments.* Sen (1997) especially emphasised how "business principles and moral sentiments" must operate in combination. Indeed, the importance of this combined effect, he says, "cannot be overemphasised".

CONCLUSION

Many readers will have started out with their own ideas about the central issues of business ethics in relation to strategy. The present paper reviewed sixteen distinctive themes within that relationship, but then sets out an organising and simplifying framework for all contributions to this domain. It is hoped that the review and organising framework prove to be helpful as an aid to understanding and as a stimulant for further activity in the area.

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