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STRATEGY, PROFITS & ETHICS: BEYOND THE WORK OF MILES

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Abstract

A prominent feature of the management – and increasingly marketing – literature is offering normative prescriptions to corporate strategists for maximizing profits. However, with few exceptions, the ethicality of various profit making strategies has not been analysed or debated. Building upon previously developed ethical criteria, this paper assesses five profit making strategies widely discussed in the literature. Our results reveal that strategy approaches for making profits based on industrial organization (IO) economics seem to largely fail the ethical criteria while Austrian, core competency, dynamic capabilities and market orientation approaches seem to fair much better. For scholars involved in the teaching of strategy, this study clearly demonstrates that ethics cannot be ignored in the classroom. For corporate strategists, examining their approach to making profits should come under the careful scrutiny of an ethical lens, such as one described in this paper.

Keywords

Ethics, profits, strategy, industrial organization economics, Austrian economics, core competencies, dynamic capabilities, market orientation

STRATEGY, PROFITS & ETHICS: BEYOND THE WORK OF MILES

Introduction

The economist Milton Friedman (1970) unapologetically posits that the only responsibility of business is to maximize profits. By maximizing profits, Friedman (1970) argues that a firm meets its obligations to society. Indeed, a good deal of scholarly attention over the years has focused on the profit imperative and its importance as a key feature of properly functioning capitalist societies (e.g., Friedman, 1962; Novak, 1982). Even experts in the fields of corporate social responsibility, business ethics, stakeholder management and corporate citizenship agree that making profits is a fundamental, although not the only, responsibility of the firm (Almeder, 1980; Carroll, 1979, 2004; Freeman, 1984). However, profit making as a social responsibility and *how* the firm actually generates profits are two separate issues. To address the latter, several theoretical treatments have been posited and normative prescriptions offered that help managers understand, and then apply, strategies that might maximize profits. Such efforts have come from the strategic management, marketing and economic literature (Stoelhorst and van Raaij, 2004). While theoretical explanations (and their normative prescriptions) for maximizing profits are prevalent, what we believe is missing is a sustained debate on the degree to which these profit making strategies are *ethical*. If business operates in an ethical sphere (Carroll, 1979, 1999), then exploring the ethicality of profit making strategies is a necessity for the scholar and practitioner alike.

Previously, the *Journal of Business Ethics* has offered coverage on the ethicality of specific profit making strategies, an offering that appears to be rare. In Miles' (1993) work, he explores the ethical validity of three profit making strategies posited in the strategic management literature and described by Teece et al. (1991), including the competitive forces approach, the strategic conflict school and the resource-based perspective. By using the ethical criteria of "intentions versus results" and "private gain versus public good," which he roots in religious doctrine and the economic theory of Adam Smith ([1776] 1963), Miles

(1993) argues that the competitive forces and the strategic conflict strategies fail the ethical test while the resource-based perspective passes the test.

The work of Miles (1993) is important in that it offers much needed discourse on strategy and ethics, a topic given short shrift in the literature (Hosmer, 1994; Foss, 1997). However, Miles' (1993) work is limited to three paradigms drawn from the field of strategic management, albeit popular ones. The reality is, the field of strategic management is eclectic and offers paradigms to maximize profits well beyond the three Miles (1993) discusses (Hoskisson et al., 1999). Furthermore, the field of marketing offers its own paradigms with respect to earning profits (Hult and Ketchen, 2001); we also believe that Miles (1993) has not adequately examined important contributions from the field of economics. To further the work of Miles (1993) and in order to build a more comprehensive perspective on strategy, profits and ethics, using Miles' (1993) criteria, we will explore five additional profit making strategies developed from: 1) industrial organization (IO) economics; 2) Austrian economics; 3) the core competency concept; 4) the dynamic capabilities school; and 5) marketing theory. While it would be beyond the scope of a single article to explore *all* strategy approaches to profit making, these five are chosen as they are widely discussed in the literature and are both grounded in positivistic theory while offering normative prescriptions for managerial action to maximize profits (Conner, 1991; Jacobson, 1992; Teece et al., 1997; Stoelhorst and van Raaij, 2004).[1] What is lacking is a substantive ethical evaluation of the underlying means to achieve those profits.

To proceed, the paper is organized as follows. In the first section, the profit making strategies assessed by Miles (1993) and the criteria he used will be briefly described. Next, we will provide background and an ethical assessment of additionally important profit making strategies. Following the assessment, a discussion is offered and implications described. Lastly, concluding remarks are offered.

The work of Grant Miles

Miles (1993) argues that the evaluation of the ethicality of profit making strategies posited in the strategic management literature has been given short shrift. To address the matter, he examines the development of the legitimacy of profits through events stemming from the Protestant Reformation and the economic theory of Adam Smith. The Protestant Reformation put forth the ideas that pursuing profit was an honorable and worthy objective of business and a just reward for hard work, ideas that form the basis of modern capitalism (Weber, [1905] 1958; Calvin, 1960). Adam Smith's ([1776] 1963) economic theory put forth the idea that to maximize societal wealth, individuals should be free to pursue there own self-interests. Thus, Miles suggests that two criterion are important in order to ethically assess profit making strategies. First, "intentions versus results" accepts that if individuals are free to pursue there own self-interests, the results will be beneficial to all and, therefore, societal welfare will be maximized. This is a fundamental assumption of free market economies.

Second, "private gain versus public good" focuses on the distribution of wealth. Here, if individuals work hard they will be rewarded with profit. However, the focus is on whether or not earning the profit comes at the expense of someone else. The theoretical tenets of Smith's ([1776] 1963) capitalism posit that firm's should only earn profits (e.g., private gain) when something of value is offered in the market, thereby creating benefit for others (e.g., public good). Thus, intentions versus and results and private gain versus public good become the criteria for Miles' assessment.

With respect to specific strategies analyzed (Table 1), Miles includes the competitive forces approach (Porter, 1980), the strategic conflict school (Shapiro, 1989) and the resource-based perspective (Barney, 1991). The competitive forces approach is essentially strategy that seeks monopolistic profits and control of the environment that favors the firm. The

strategic conflict school aims to generate profits through deception, trickery and restricting competitor actions. Finally, the resource-based perspective seeks profits through reducing costs, raising quality or otherwise offering something of value that competitors cannot match. By using the ethical criteria of intentions versus results and private gain versus public good, Miles (1993) argues that the competitive forces and the strategic conflict strategies for making profits fail the ethical test while the resource-based perspective passes the test.

Table I. Miles' ethical evaluation of three profit making strategies

Framework / Dimensions	Competitive Forces	Strategic Conflict	Resource-Based Perspective
Foundations/ Theoretical roots	▪ Industrial organization (IO) economics	▪ Industrial organization (IO) economics	▪ Austrian economics ▪ Business policy ▪ Chicago School-UCLA approach ▪ Evolutionary economics
Basis of making profits	▪ Manipulation of industry structure ▪ Control of industry forces ▪ Restriction of competition	▪ Deception/ trickery ▪ Manipulation of the market mechanism	▪ Efficiency ▪ Innovation ▪ Cost control
Primary source(s) of competitive advantage	▪ Market power ▪ Entry and mobility barriers	▪ Set of actions that restrict competitor moves ▪ Collusion ▪ Market control	▪ Idiosyncratic resources
Ethical criterion: Intentions vs. results	▪ In violation	▪ In violation	▪ Not in violation
Ethical criterion: Private gain vs. public good	▪ In violation	▪ In violation	▪ Not in violation

Miles' (1993) findings rest in two key assumptions. First, he believes that the competitive forces and the strategic conflict approaches to making profits are unethical because the intention is aimed at the control and deterrence of competition, which suppresses the free pursuit of self-interest intended to maximize social welfare, as per Adam Smith ([1776] 1963). Second, because each approach is essentially based on gaining monopoly power, distribution of wealth is skewed and there is a deadweight welfare loss to society due to the

restraint of output that keeps prices artificially inflated. This suggests benefit to the firm at the expense of society, and thus is in violation of the ethical criterion of private gain versus public good. Conversely, Miles (1993) argues that the RBV violates neither criterion, thereby demonstrating an ethical means of generating profits.

Justification of the use of Miles' approach to ethically evaluating profit making strategies

Multiple theories of ethics exist which consist of varying underlying concepts and distinctions (DeGeorge, 1989; Hoffman and Moore, 1990; Hosmer, 1992; Velasquez, 1992). However, given that business is action-orientated – it deals with conduct, people, relationships, transactions, buying, selling, hiring, firing, contracting, production, distribution, marketing, advertising and so on – it seems an impossible task to apply a single theory of ethics to this assortment of business activities and still avoid conflicts and disagreements. Although perhaps questioned as an explicit "theory" of ethics (Foss, 1997), we believe Miles' (1993) criteria – the criteria that we use – for ethically evaluating profit making strategies is justifiable given the following reasons.

Strategy is what underpins and propels organizations forward (Andrews, 1971). However, at its heart strategy is ultimately concerned with building and sustaining a competitive advantage that increases, and possibly maximizes profits (Porter, 1985, 1991). A fundamental issue then becomes: how are these profits generated? Are they generated fairly or unfairly? Are they generated justly or unjustly? This is a question of ethics. To answer the question, two, although by no means the only, ethical criterion have been proposed by Miles (1993). The first, intentions versus results, directly addresses the goal behind a given strategy. Is it to "make a buck" without considering the consequences of the actions of the strategy? On the other hand, private gain versus public good is an ethical issue from the perspective of a "deadweight" welfare loss, i.e., imposing a loss of welfare (relative to what could be achieved under competitive conditions) on other people. Each of these criterions serves as a basis of ethical evaluation and is rooted in historical foundations of both religious

doctrine and the origins of capitalism (Vogel, 1991). Therefore, by leveraging an intentions versus results – private gain versus public good framework, a foundation is set for ethically evaluating the legitimacy of any profit making strategy.

Beyond Miles: An ethical evaluation of five additional profit making strategies

Regardless of their underlying discipline, all approaches to strategy have a core goal of profit maximization (cf. Conner, 1991; Porter, 1991). Each strategy approach rests upon a set of theoretical underpinnings and assumptions and each one posits different routes to gaining a competitive advantage that affords the generation of profits. In order to ethically evaluate the strategy approaches, we will discuss each one on the basis of Miles' (1993) ethical criteria of intentions versus results private gain versus public good (Table 2).

Table II. Ethical evaluation of five additional profit making strategies

Framework / Dimensions	IO Economics	Austrian Economics	Core Competencies	Dynamic Capabilities	Market Orientation
Foundations/ Theoretical roots	▪ Neoclassical economics	▪ Theory of value Lausanne School (France) ▪ Salamanca School (Spain)	▪ Resource-based view of the firm	▪ Austrian economics ▪ Evolutionary economics ▪ Resource-based of the firm	▪ Marketing concept ▪ Marketing theory
Basis of making profits	▪ Restraining productive output ▪ Collusion ▪ Restriction of competition ▪ Monopoly position	▪ Innovation ▪ Creating/adapting technological change that make competitors irrelevant	▪ Differentiated customer value ▪ Entry into multiple markets	▪ Continual response to changing market requirements	▪ Superior customer value creation ▪ Innovation
Primary source(s) of competitive advantage	▪ Barriers to entry ▪ Size	▪ Superior entrepreneurship ▪ Knowledge	▪ Learning ▪ Coordination ▪ Business processes	▪ Routines that acquire, change, integrate and recombine firm resources	▪ Superior customer, market and competitor knowledge
Ethical criterion: Intentions vs. results	▪ In violation	▪ Not in violation	▪ Not in violation	▪ Not in violation	▪ Not in violation
Ethical criterion: Private gain vs. public good	▪ In violation	▪ Not in violation	▪ Not in violation	▪ Not in violation	▪ Not in violation

Approaches based on industrial organization (IO) economics

The field of economics has had a strong influence on the development of theories of how firms generate profits (Porter, 1981; Teece, 1984; Conner, 1991; Jacobson, 1992). One of the most influential economic theories is IO economics (Bain, 1956, 1959). If we take the normative prescriptions derived from the Structure-Conduct-Performance (SCP) paradigm of IO economics – which strategists such as Porter (1981) do – and turn it into a positive theory of making profits, then there are two prime considerations: 1) the restraint of productive output; 2) the erection of entry barriers (Conner, 1991).

By restraining output, firms can drive up the market price of a good, thus earning abnormal profits. To do so, collusion with other firms or gaining a monopoly position in the industry is the prescribed strategy. On the other hand, building barriers to entry in order to restrict competition in an industry can protect a firm's ability to generate and sustain profits, which might have been eroded otherwise. Given that profit making strategies based on IO economic theory are aimed at the control and deterrence of competition, the free pursuit of self-interest intended to maximize social welfare is breached. Here, the violation of the ethical criterion of intentions versus results comes under question.

With respect to private gain versus public good, strategies based on IO economic theory are predominately aimed at firm benefit. Firms able to control and deter competition force customers into accepting poorer quality products (at high prices) because the benefits of innovation are constrained in the market (Jacobson, 1992). Scherer (1980) also suggests that where high industry concentration and monopoly power is manifested, distribution of wealth is skewed and there is a deadweight welfare loss to society due to the restraint of output that keeps prices artificially inflated. This scenario suggests benefit to the firm at the expense of society, and thus may be in violation of the ethical criterion of private gain versus public good.

Approaches based on Austrian economics

Austrian economists largely share many of Schumpeter's (1934) original theories and postulates about competition and economic growth (Dosi and Nelson, 1994). The essence of the Schumpeterian view is that the purpose of firms is to take control of competitive opportunities by creating or adopting innovations (or technological change) that obsolete rivals' positions. This adaptive approach to innovation and technological change emphasizes the evolutionary concept of creative destruction (Bloch, 2000). As an agent to such evolutionary processes, the firm relies on the strength of the entrepreneur as a manager of change. To initiate change, entrepreneurs are only limited by access to financial capital and their ability to leverage resources to produce new products, processes or forms of organization (Waters, 1994). Profit making strategies based on Austrian economic theory do not concern themselves with the restriction of competition in order to gain and protect a favored position in the market, but rather support strategies of innovation and entrepreneurial discovery that render competitors strategies obsolete or irrelevant (Jacobson, 1992; Hill and Deeds, 1996). Here, self-interest is concerned with becoming a more productive, efficient, innovative company rather than self-interest that is concerned with protecting a privileged position at the expense of competitive markets and of society (Jacobson, 1992). Thus, there appears to be no violation of the ethical criterion of intentions versus results.

In regards to market competition, Austrian economists view it as something that is dynamic (Roberts and Eisenhardt, 2003). That is, markets are not in equilibrium, they are in disequilibrium. This view has important implications for the public good. In IO economic theory, because markets are considered static, strategies such as collusion and the erection of barriers to entry can be maintained for the benefit of the firm while forsaking benefits to the public. In the Austrian view, strategies based on entrepreneurship and innovation work as a means of creative destruction to circumvent barriers to entry or monopoly control of a

market, for example (Hill and Deeds, 1996). Thus, better products, higher efficiency and/or improved processes are continuously being introduced, superseded and reintroduced through dynamic market conditions. Firms able to capitalize on entrepreneurial discoveries and innovations not only benefit themselves in the form of profits, but also serve the broader interests of the public through higher quality products and/or lower prices (Jacobson, 1992). Here, private gain versus public good does not appear to come under ethical violation.

Approaches based on core competencies

Prahalad and Hamel (1990) popularized the core competency concept as a novel means of rethinking the notion of the corporation and the roots of competitive advantage.[2] A core competency is "the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies" (Prahalad and Hamel, 1990, p. 81). Of particular interest to the core competency concept are its contribution to customer value and its means as a gateway to a wide variety of product markets (Prahalad and Hamel, 1990; Hamel, 1994). With respect to customer value, a core competency is a skill which firms leverage to deliver fundamental customer benefit, namely by satisfying customers' functional and psychic needs in a way that competitors fail to do (Sheth et al., 1991). Hence, a core competency is 'core' only when it delivers value to customers better than competitors. As such, self-interested behavior of the firm produces high levels of customer value, resulting in a competitive advantage that maximizes profits (Prahalad and Hamel, 1990). Given this equation, strategies based on core competencies do not appear to be in violation of the intentions versus results criterion.

On the other hand, a core competency is also 'core' when it provides a channel or gateway to enter new markets. For example, Sharp's core competency in designing and developing flat-screen displays has served as a channel to enter a variety of product markets such as camcorders, laptop computers, video projection screens and pocket televisions (Hamel, 1994). Casio leverages its core competencies in miniaturization, microprocessor design,

material science and ultrathin precision-casting to enter a variety of product markets – from card calculators to pocket televisions to digital watches (Prahalad and Hamel, 1990). Here, we suggest that through the core competency strategy, a variety of end-user products are developed and brought to market, resulting in incremental benefits to society. On the firm's part, it gains richer growth prospects, resulting in improved performance (Wernerfelt, 1984). As such, private gain versus public good is not likely to be in violation.

Approaches based on dynamic capabilities

In markets with rapid change, unclear boundaries, successful business models that are undetectable and competitors that are ambiguous and shifting, several scholars argue that sustainable competitive advantage is unpredictable, if achievable at all (Teece et al., 1997; Makadok, 1998; Eisenhardt and Martin, 2000). Thus, for a firm to perform well and to meet customer requirements, it must rely on its ability to effectively manipulate resource configurations (Eisenhardt and Martin, 2000). Such a view refers to dynamic capabilities (Teece et al., 1997; Eisenhardt and Martin, 2000). According to Eisenhardt and Martin (2000, p. 1107), "Dynamic capabilities are the antecedent organizational and strategic routines by which managers alter their resource base—acquire and shed resources, integrate them together, and recombine them—to generate value-creating strategies." Here, constant pressure to remain viable necessitates that firms continuously improve efficiency, effectiveness and innovation in order to respond to ever changing market conditions and customer requirements. Although the intention might be survival, customers ultimate benefit in improved products and/or lower costs. Therefore, intentions versus results are unlikely to be violation.

In order for societal welfare to be maximized, products and services must be delivered by business firms that meet consumer needs (Smith, [1776] 1963). In markets where discontinuous change is the norm (e.g., computer/software, consumer electronics, biotechnology), product needs change at increasing rates (Teece et al., 1997). Thus, for

societal welfare to be met, firms must coordinate/integrate firm activities and reconfigure and transform assets, resources and routines in order to keep pace with ever changing market dynamics, so as to create value for customers in a way that affects competitive position and its ability to generate profits. If not achieved, products lag, become inferior and/or ultimately fail to meet the needs of buyers (Teece et al., 1997; Eisenhardt and Martin, 2000). Because strategies based on dynamic capabilities directly address theses issues, they appear to offer private gain while delivering public good.

Approaches based on marketing theory

Although perhaps a relative "newcomer", the field of marketing is making inroads into how scholars view competitive advantage (Hult and Ketchen, 2001). Although discussed and studied for nearly 15 years as a means of generating profits, a consensus on the theoretical construct, *market orientation*, has yet to emerge (Gainer and Padanyi, 2005). However, three main aspects of a market orientation are commonly conceptualised, based on the work of Kohi and Jaworski (1990) and Narver and Slater (1990). These include: 1) customer orientation; 2) competitor orientation; and 3) market information sharing.

By adopting a customer orientation, firms take necessary actions to understand target customers so as to create superior value for them (Narver and Slater, 1990). Firms collect and analyse customer needs and the wider forces that shape those needs as part of their strategy (Kohli and Jaworski, 1990). They also take appropriate action in response to information about customer needs or market dynamics (Kohli and Jaworski, 1990). With respect to competitors, market orientated firms closely watch, monitor and, when and where appropriate, effectively respond to competitor strategies and actions in order to improve customer value (Narver and Slater, 1990; Balakrishnan, 1996). Lastly, by sharing market information (e.g., customer, competitor) throughout the organization, it is expected to increase a firm's "intelligence" in that functions within the firm will be able to adjust operations to suit external conditions (Kohli and Jaworski, 1990). As a result of a market

orientation, firms are predicted to be superior performers; there is evidence to suggest that this is the case (e.g., Chang and Chen, 1998; Oczkowski and Farrell, 1998). A market-orientated approach to strategy, although designed to generate a competitive advantage that delivers high levels of profitability, has its main emphasis in meeting customer needs and creating superior value for them. Thus, the intentions of the firm result in benefit to society. Here, the ethical criterion of intentions versus results does not appear to be under violation.

Similar to Austrian, core competency and dynamic capability approaches to strategy, the market orientation approach also fairs well with respect to private gain versus public good. In a market-orientated firm, the primary objective is to serve customer needs better than competitors. However, if competitors become more attuned to customer needs or if customers themselves become dissatisfied with the firm, by working towards updating, adjusting and/or fine-tuning the firm's strategy, it can then restore its ability to more effectively serve the client base. When the firm again serves its clients more effectively, it benefits in the form of profits while society benefits in the form of improved products and services.

Discussion and implications

There has been widespread debate on the role and function of business in society. To be sure, the making of profits is seen as an important social responsibility, although by no means the only one. In order to address the issue of making profits, various profit making strategies have been posited and discussed in the literature for decades. While this effort has resulted in important theoretical and empirical contributions and in helping practitioners to put strategies in place to maximize firm profits, what we believe is missing is a specific and sustained debate on the ethicality of these prescribed strategies. If business operates in an ethical sphere (Carroll, 1979, 1999), then assessing the ethical validity of a profit making strategy is of paramount interest. Building upon Miles' (1993) first efforts, we find some interesting parallels to his work.

Upon examination, our evaluation of profit making strategies based on a neoclassical economic heritage reveals that they appear to violate the ethical criteria of intentions versus results and private gain versus public good, which Miles' (1993) also finds (Tables 1 & 2). If business is a realm distinct from society, as Friedman (1970) argues, and if business decisions have no moral content, then there is no ground from which to call for an ethical approach to making profits.[3] Thus, given that neoclassical economics is generally described as an "amoral" science and presupposes markets exchanges as value-free (Hausman and McPherson, 1993; Keating and Keating, 1998)[4], perhaps it is not surprising that the profit making strategies ultimately traced to neoclassical economic theory appear to fail the ethics test described in this paper.[5] However, it is clearly recognized that Bain (1959), for example, intended his SCP paradigm to be used to point out violations of competitive markets so that policy makers could intervene to restore social welfare. It was Porter (1981) who deliberately flipped the SCP paradigm on its head by arguing that strategists *should* work to restrict competition in order to appropriate monopoly profits. Therefore, given our analysis, there are a few implications that can be drawn.

For faculty involved in teaching students in the means of making profits, we encourage intellectual integrity and honesty in the classroom. If one accepts that ethics are a part of business and business decisions, then acknowledging and debating the ethical validity of profit making strategies with students is important. By comparing and contrasting the competitive forces approach versus the resource-based perspective (or any of the other strategies highlighted in this paper or in Miles' [1993] paper), for example, students could be armed with important knowledge; knowledge that will help them make their own enlightened, ethical decisions as they face the demands of making profits in the real world. Ultimately, scholars should ask themselves what is more ethical: teaching techniques for protecting the firm from profit-reducing competition (e.g., IO model, strategic conflict) or teaching students to face the challenges of competition with greater entrepreneurial skill and customer focus (e.g., Austrian-based strategy, market orientation)?

Second, with respect to research, studying performance variation is no doubt a fundamental goal of many business scholars. Certainly, insights from economic theory and econometric techniques have helped researchers in this effort. However, Walsh et al. (2003) argue that business scholars have become preoccupied with performance at the expense of so-called "softer" issues, including ethics. We suggest that the two – performance and ethics – can be combined. Here, stakeholder theory and theories of corporate social responsibility offer frameworks for empirically exploring the relationship between ethical approaches to management and performance outcomes (Carroll, 1979; Clarkson, 1995). While much research has been conducted within this stream (Margolis and Walsh, 2003; Orlitzky et al., 2003; De Bakker et al., 2005), Godfrey and Hatch (2006) argue that there is room for further study of the relationship.

Finally, with respect to practitioners, namely corporate strategists, a prime goal is the development and sustainability of a competitive advantage. By creating and sustaining a competitive advantage, a firm can generate above normal profits (Porter, 1991). However, are these profits being realized ethically? We argue that profits can be generated ethically and using traditional economics and rational decision-making models, three examples are provided. In the first instance, the ethical characteristics of honesty and trust reduce transaction costs because fewer protective devices are needed if the firm has trustworthy agents and less time is spent in negotiation if initial claims are truthful (Williamson, 1985; Milgrom and Roberts, 1992; Barney and Hansen, 1994; Hosmer, 1995). Thus, the costs of an option based on these characteristics are lowered, so that it may become the preferred option, especially where transaction costs are high relative to other costs. In the second instance, the strategic resources model suggests that as the speed of tangible assets accumulation and the pace of imitation quickens, the advantages of location and technology are being eroded while intangible assets are assuming an increasingly competitive significance (Itami and Roehl, 1987; Prahalad and Hamel, 1990). In the case of one such intangible, an ethical culture – which is based on knowledge and organizational routines that

are difficult to duplicate – can serve as the basis of durable competitive advantage (McGuire et al., 1988; Kramer and Tyler, 1996; Bowie and Vaaler, 1999). In the last instance, firms that demonstrate ethically responsible behavior signal to stakeholders – including customers, shareholders and lenders – that they are concerned about building a quality reputation, which can culminate in better sales and profits, and in the ease of attracting new equity investment in the firm (McGuire et al., 1988; Fombrun and Shanley, 1990; Burgstahler and Dichev, 1997; Waddock and Graves, 1997).

Conclusion

With respect to one of the major imperatives of any business – the making of profits – we have suggested in this paper that this imperative must be jointly addressed within an ethical framework, which builds upon the work of Miles (1993). Our evaluation reveals that profit making strategies that are built upon IO economic theory largely appear to fail the ethical criteria proposed in this paper. On the other hand, Austrian, core competency, dynamic capability and market orientation approaches to profit making appear to fair well with respect to the ethical criteria. Why do the latter three approaches appear to pass the ethical criteria? What separates these approaches to making profits from IO economic strategies is that they are predominately based on and have as a major emphasis innovation, efficiency/cost reductions and creating customer value. These features are ultimately focused on societal benefit (if not firm survival) rather than on manipulation and control of markets and the undermining of competition for personal gain, if even at the expense of other competitors and society. Here, there does not appear to be a violation of intentions versus results or private gain versus the public good.

Lastly, we fully acknowledge that the work in this paper is based on our perception of each profit making strategy. However, the evaluation is rooted in the positivistic treatment of the prominent features of each strategy in the literature and on ethical criteria that has been previously applied (Miles, 1993). We do believe that our treatment adds to the debate on

ethics and profits, and particularly to the ethicality of specific profit making strategies that are widely discussed in the economics, strategic management and marketing literatures. We, in fact, hope that this paper spawns counter debates and other points of view.

Notes

1. For example, in *Strategy Safari* (Mintzberg et al., 1998), 10 strategy paradigms are discussed. However, many paradigms deal with the *process* of creating strategy (e.g., planning school, learning school), rather than offering explicit prescriptions for maximizing profits. Thus, in this paper, we are examining those strategies beyond Miles (1993) that are widely discussed in the literature, that posit theoretical explanations for performance differentials between firms and that offer normative prescriptions to managers for generating profits.
2. We note that the core competency concept has evolved into an entire competency "school". See Sanchez and Heene (1997).
4. Friedman (1970) argues that firms are distinct from society in that they do not have responsibilities to society; they have responsibilities only to shareholders.
5. While most economists do appear to seek a "value-free" approach, Vickers (1997) shows that there are exceptions.
6. Of course, Friedman (1970) argues for making profits *legally*. This presupposes ethical behavior. However, profit making strategies based on neoclassical economic theory include unethical actions that may not be easily prosecuted by law (e.g., tacit collusion). Thus, as discussed, the ethical criteria of intentions versus results and private gain verus public good are in question. Ultimately, according to Almeder (1980), Friedman's view suggests that while firms should act legally, there is no regard for morality.

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