Practical Wisdom: Integrating Ethics and Effectiveness in Organizations

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Abstract

This paper responds to Margolis and Walsh's (2003) call for organizational theory that acknowledges the conflict between normativity and effectiveness and yet still facilitates action. We address this issue at the level of the individual, and we focus on the Aristotelian concept of 'practical wisdom' (*phronêsis*) as a way to describe individual decision-making practices that are *both* ethical *and* effective. We then present a interpretative framework that differentiates decision-making practices based on the extent to which they successfully integrate ethics and effectiveness. We conclude by outlining the implications of this framework for future theoretical and empirical research on practical wisdom in organizations.

Key words: Practical wisdom (*phronesis*); business ethics; decision-making; Aristotle; common good.

"If the future is plagued with conflict and turmoil, this instability does not simply reside out there somewhere*; it resides, and has its origin,* in ourselves*"*
(Sternberg, 2001:237)

"Each micro-decision – each micro-change in interpretive propensities that results from reflection – moves us infinitesimally towards a different moral world"
(Walker, 2000:144).

Introduction: Ethics v. Effectiveness: Addressing the Antinomy

In a recent article, Margolis and Walsh (2003) discuss the tension between ethics and effectiveness in organizations, addressing what they call the 'antinomy' between a firm's economic efficiency and its efforts to respond to social misery. Their discussion explicitly critiques the century-old belief, initiated (according to some, unintentionally) by Adam Smith and more recently represented by Milton Friedman (1970), that an organization's sole social responsibility is wealth creation. Margolis & Walsh's study contains a detailed analysis of current organizational research efforts to establish statistically significant relationships between firms' corporate social performance (CSP) and corporate financial performance (CFP). They show how such studies yield mixed results, including negative, positive, and absence of correlations. More importantly, they show that this stream of research tends toward a limited focus on measurable performance indicators, carrying with it the following assumptions:

1. That there is a measurable relationship between ethics and efficiency, i.e. that ethical performance can be measured using indicators similar to those used to assess financial performance;

2. That the relationship between ethics and efficiency is of an instrumental nature, i.e., in which ethics serves as an instrumental means to the end of performance (i.e. *ethics pays*);

3. That if ethics does not "pay", then ethical behaviors will necessarily be costly, exist in opposition to effectiveness, and thus be illegitimate.

Margolis and Walsh note how research based on these assumptions that seeks to establish a link between financial and social outcomes ultimately nourishes a view of corporate social responsibility (CSR) that is limited to making the 'business case' for ethics and responsibility. They note how, in doing this, researchers may be relying on empirical data when in reality the problem is situated on the level of *values*. Margolis and Walsh conclude

that people in organizations struggle particularly when they cannot reconcile normative principles of responsibility with the principles of profit and efficiency that nominally drive the firm (e.g., when no profit can be predicted to derived from a given social initiative). Following this line of argument, the "antinomy" separating ethical normativity from instrumental effectiveness arises when people in organizations work from assumptions and use methods that preclude their possible integration. In the interest of moving beyond these assumptions and methods, the authors call for the development of theory which addresses the question: "How might the role, purpose and function of the firm be specified so as to acknowledge a range of inconsistencies and concerns, and still facilitate action?" (Margolis & Walsh, 2003:284).

In this paper, we respond to this call and attempt to move beyond the view that ethics and performance are related either instrumentally or oppositionally. We do this by addressing ethics and effectiveness in terms of their possible integration. We do not, however, take up the question at the level of the firm,[1] but rather at the level of the individual decision-making actor. In line with Wood (1991), we emphasize the importance of individual managerial discretion with respect to CSR. As such, we believe that ethics and effectiveness cannot be integrated in organizational practice unless individual decision-makers are able to deal with the above-mentioned tensions and inconsistencies in practice. And yet as we will see below, the existing theories of individual ethical decision-making within moral psychology and business ethics appear inadequate for describing how these tensions might be resolved. Our goal in this paper is therefore to elaborate a theory of individual ethical decision-making that focuses on 'practical wisdom' (following Aristotle, 1962; cf. Jones, 2005) as a description of how these tensions can be balanced.

We begin with a review of traditional models of ethical decision-making, focusing on their limitations with respect to the inconsistencies and concerns identified by Margolis and Walsh (2003). We then present the concept of practical wisdom, and draw on philosophical, psychological, and organizational theory to argue that practical wisdom refers to the virtuous habit of integrating ethical responsibility and effectiveness *in practice*. We develop this idea further by constructing an interpretative framework that describes three different modes of

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[1] For an attempt at articulating notions of effectiveness and ethics at the firm level, see for example Le Menestrel, 2002

decision-making practice in terms of the extent to which they integrate ethics and effectiveness. We close by considering the implications of this framework for future research focused on wise decision making practices in organizations.

Section 1: On The Limitations Of Traditional Models Of Individual Ethical Decision-Making

In order to address issues of individual ethical decision-making in organizations, researchers have developed various models that attempt to link given individual-level variables with normatively desirable outcomes (for a review of such models, see Jones, 1991). These models typically provide iterative descriptions of the formation of moral intent and behavior, wherein different contextual or individual moderators play a role, depending on the theoretical perspective taken (e.g. Rest, 1986; Treviño, 1986; Jones; 1991; Ferrell and Gresham, 1985; Hunt & Vitell, 1986; Dubinsky & Loken, 1986). For example, the most widely used model, that of Rest (1986), describes moral decision-making as characterized by the following four sequential steps: based on *moral awareness*, the actor exercises *moral judgment*, establishes *moral intent*, and finally proceeds to display *moral behavior*.

Despite the usefulness of such models in exploring the antecedents to ethical behavior, their underlying assumptions have been subject to various critiques. For example, within moral psychology, the tendency to focus almost exclusively on cognitive and rational processes has been called into question. In the past decades, there has been growing interest in emotional as well as identity-based elements of moral decision-making, and these literatures emphasize the importance of extra-rational processes in the formation of moral intent and behavior (see for example Schweder & Haidt, 1993; Eisenberg 1996; 2002; Blasi, 1984; Colby & Damon, 1992). In addition, it has been argued that rational models leave little room for understanding how factors such as subjective norms and values contribute to the emergence of behavior (Dubinsky & Loken, 1989). As argued by Punzo (1996), this paradigm of research, inspired by Kantian thought, limits our understanding of ethical behavior insofar as it construes the self as a disembodied observer of its own moral actions.

Furthermore, a key challenge in moral psychology has been to understand how espoused values are translated into enacted values. In effect, research actually

demonstrating this link is sparse, and although correlations between moral intent and moral behavior have been found, they tend to be moderate (typically ranging from .30 to .40 – cf. Blasi, 1980; Bay & Greenberg, 2001; Thoma & Rest, 1986). Researchers have tried to strengthen this link empirically by including various contextual and/or individual moderating factors that influence the passage from moral judgment to behavior (e.g. Trevino, 1986; Hunt & Vitell, 1986). However, others (Tsoukas & Cummings, 1997; Clegg & Ross-Smith, 2003; Solomon, 1992 and 2004; Campbell & Christopher, 1996), argue that the problem is not situated at the level of a lack of alignment between intended behavior and enacted behavior. They suggest that an obstacle to ethical behavior is the tendency to separate the domain of the prudential (or subjective, context-dependent, contingent) elements of a given problem from the moral considerations (understood in terms of rational, abstract principles). In other terms, problems arise when people view morality as limited to disembodied, universal, and situation-transcendent imperatives that govern their daily life. The cited authors critique excessively formulaic or rule-based descriptions of ethical behavior and emphasize the importance of *context* in defining relevant considerations in a moral decision, as well as the key role of one's practical experience in forming habits of moral behavior. Such implicit and habit-based patterns of thought and behavior are proposed to be key to understanding the enactment of ethics.

We suggest that one of the major disadvantages of the formulaic models of decision-making, is the underlying assumption that ethical behavior can be *codified*. In organizations, this belief has resulted in the the establishment and implementation of various extrinsically defined norms of behavior, such as corporate "codes of ethics", mission statements and the like. This is the predominant way firms' decision-makers attempt to eliminate situational contingencies and create inventories of acceptable and unacceptable behavior (Harrington, 1991). However, as stated by Maclagan (1990),

> "Codes cannot replace individuals' own capacity for moral judgment and integrity. These are *personal* qualities which contribute to managers' performance, and are acquired through process of moral learning and development including the cultivation of interpersonal skills and understanding through experience" (1990:17)

In other terms, these authors suggest that in decisions where human and environmental well-being are an issue, abstract codification of "correct" behavior – in terms of universalist and extrinsically-defined notions of value – is of limited usefulness.

In this light, the antinomy that appears within economic and organizational theory (where normativity appears in contradiction to effectiveness) reappears within ethical theory, where the subjective, context specific domain of the prudential appears in contradiction to the objective, rational sphere of moral principles. But in both cases, the antinomies depend on a definition of oppositional terms, where objectivity and rationality are associated with one term, and subjectivity and irrationality with the other. It is however interesting to reflect on the fact that while both streams of theory privilege rationality, ethical theory associates it with the universal moral principles that economic theory deems irrational, at least with respect to the nominally rational goal of profit maximization. In turn, while economic theory finds profit maximization to be fully rational, within ethical theory the instrumental goal of making money appears subjectively self-serving at best.

It is not our purpose to resolve these debates, but instead to approach them from a different point of entry. We turn now to the Aristotelian tradition of virtue ethics to see whether it might helps us deal with the uncodifiability (McDowell, 1979; Abizadeh, 2002; Maclagan, 1990) and context-dependence (Flyvbjerg, 2001; Abizadeh, 2002) of ethical issues. Our hope is that this alternative notion of ethical decision-making will provide a new perspective on the antinomy identified by Margolis and Walsh (2003).

Section Two: Practical Wisdom: A Compelling Alternative Framework

Proponents of more practice-based, subjective, and contingent understandings of behavior in social contexts argue that abstract reason can never grasp all the details of a given concrete situation sufficiently to codify behavior *ex ante* (Flyvbjerg, 2001; Abizadeh, 2002). As argued by Maclagan (1991), managers are frequently confronted with dilemmas that cannot be resolved by appeal to rule-based guidelines such as codes of ethics. In other words, no universal rule or principle can possibly cover every particular contingency that may arise in the future because practical matters are (1) mutable, (2) ambiguous, and (3) ungeneralizable (Tsoukas & Cummings, 1997). In this sense, in reference to the guiding

antinomy that seems to separate responsible and effective behaviors in organizations, "we cannot remove the deliberating agent from ethics and politics, reducing *politikê* to passive application of universal principles to particular circumstances. Judgment is needed" (Abizadeh, 2002: 270). Or, as emphasized by Maclagan (1991), "there is a clear distinction between *conformity with ethical codes* and the exercise of *personal moral judgment*" (1990:18). As described by Devereux (1986, quoted in Abizadeh, 2002):

> …[I]n the case of practical knowledge…it is the universals that are indeterminate and imprecise while the judgments about particular acts in particular circumstances are precise and determinate. If there is a discrepancy between the particular judgment of the practically wise person and a universal rule which applies to the situation, the defect is on the side of the universal: it is the particular judgment that is authorative (Devereux, 1986: 497-498).

In an effort to understand the practical knowledge that is required to make judgments and take action in the face of mutable, ambiguous and ungeneralizable circumstances, philosophers, psychologists and organizational theorists have turned to Aristotelian moral theory and the concept of practical wisdom.

In Aristotle's *Nicomachean Ethics*, the scientific knowledge (in Greek, *episteme*) of necessary laws and principles in the natural world is distinguished from practical wisdom (in Greek, *phronesis*), which refers to "the virtuous habit of making decisions and taking actions that serve the common good" (Statler & Roos, 2003).[2] This characterization of ethical decision-making involves not the rationally instrumental production of previously-identified, normatively positive outcomes, but instead a performative enactment of the common good (Gadamer, 2002 [1960]). We can explain more clearly how this performative enactment takes place by focusing on two characteristics that distinguish practical wisdom from the models of ethical decision-making identified above: 1) its embodied, tacit dimensions, and 2) the normative value of balance as an end in itself.

Aristotle's emphasis on the processes of habituation required for the development of practical wisdom provide an initial indication of the importance of its extra-rational aspects,

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[2] The distinction between *episteme* and *phronesis* is echoed in more modern times by William James' distinction between *knowledge of acquaintance* (which arises through action and experience – i.e. *phronesis*) and *knowledge about* (similar to episteme) (cf. Calori 2002).

but this line of thinking has been further developed by psychologists and organizational scholars. Sternberg (1998) for example has built the 'balance theory of wisdom' on the notion of tacit knowledge (Polanyi, 1976), which refers to a form of human understanding that is not reflected on explicitly as such, but rather learned over time through an engagement in embodied practice. While the dominant assumption is that such forms of knowledge are inferior to knowledge that can be represented in cognitive abstraction, it can be argued that wisdom develops only when such abstractions are ingrained in habit. For example, Baltes and colleagues working on the issues of aging and lifelong learning at the Max Planck Institute in Berlin have argued that wisdom is developed through a shift, over time and in the course of lived experience, from declarative (factual) to procedural knowledge (Baltes & Staudinger, 2000).

The further question of whether the 'content' of wisdom emerges from the mind (i.e., through rational reflection) or from the body (i.e., through experience and habit) becomes particularly difficult to answer when we recognize that the rules and regulations followed by managers are themselves the socially-constructed result of a complex process through which particular skills have been mastered and codified as explicit knowledge. In turn, this explicit knowledge may well be internalized through habituation, as in the case of expert or virtuoso performance (cf. Dreyfus & Dreyfus, 1986). A pragmatic analysis of this complicated set of issues suggests that, in any case, "once such skills are well learned, they become reflexively automatic. That is, they cannot be analyzed but become themselves the unspoken and tacit ground of any action capable of improvising in unpredictable ways around and between any sense that the rules might make" (Clegg & Ross-Smith, 2003: 87). In this light, the embodied, tacit dimensions of practical wisdom provide a first, clear point of distinction from the traditional models of ethical decision-making outlined above.

The emphasis on embodiment and practice re-frames (and thereby sidesteps) the problem of codifiability, but it raises another question that is perhaps more difficult precisely because it cannot, by definition, be answered *ex ante*: how is wisdom practiced? Or, in terms of organizational theory, how can the practice of wisdom be described and studied?

Similarly following Aristotle's notion of the 'golden mean', the exercise of such embodied, tacit knowledge in ambiguous, mutable, and ungeneralizable circumstances can

be characterized as a *balance*. On this point, we draw heavily on Sternberg's balance theory of wisdom, which distinguishes two different kinds of balancing processes: one of different interests, and another of different responses to the environment. Concerning the different interests that are balanced in the practice of wisdom, Sternberg writes that

> "Wisdom is not simply about maximizing one's own or someone else's self-interest, but about balancing of various self-interests (intrapersonal) with the interests of others (interpersonal) and of other aspects of the context in which one lives (extrapersonal) such as one's city or country or environment or even God" (2001: 231).

And concerning the various forms of response that are balanced in the course of wise practice, Sternberg writes that

> "Wisdom involves a balancing […] of three possible courses of action in response to the balancing of interests: adaptation of oneself or others to existing environments, shaping of environments in order to render them more compatible with oneself or others, and selection of new environments [when a fit between self and environmental characteristics seems implausible to attain]" (1998: 356).

These two balances should not be mistaken for abstract ethical formulae that supposedly govern wise decision-making, but rather as descriptions of the *practices* through which embodied, tacit knowledge is brought to bear on the mutable circumstances for action. In this sense, the 'balance of interests' struck by individuals in organizational contexts may well be informed by stakeholder analysis (e.g., Phillips, Margolis & Freeman, 2003), but the ethical relevance of practical wisdom emerges precisely when such analyses break down in the face of conflicting and irreconcilable interests, and when the individual nevertheless makes a decision and takes action. In such circumstances, "practical knowledge is no longer conceived in quasi-algorithmic terms, as the application of generic formulae, but in terms of acting wisely, being able to close the "phronetic gap" that almost inevitably exists between a formula and its enactment" (Taylor 1993:57, quoted in Tsoukas & Cummings, 1997: 666).

Thus the embodied habit of striking balances such as those identified by Sternberg can be affirmed not as an instrumental means to an end, but instead as a normatively optimal end in itself, or more precisely, as a *performative enactment of the common good*. This is a subtle and yet crucial point with respect to the limitations of existing models of ethical decision-making. It is not as though a practically wise person starts with explicit, formal

knowledge of what the common good is, and subsequently sets to the task of serving it through the exercise of practical intelligence. Instead, in this striking of balances, the common good is performatively enacted. Differently phrased, at the level of individual decision-making in organizations, the common good *is* the exercise of tacit knowledge *as* a balance of interests and responses to the environment.

Of course, as Ardelt (2004) insists, "the moment one tries to preserve wisdom (e.g. by writing it down), it loses its connection to a concrete person and transforms into intellectual (theoretical) knowledge. I propose that even the most profound "wisdom literature" remains intellectual or theoretical knowledge until its inherent wisdom is realized by a person" (2004: 260). But in this light, we suggest that the antinomial terms (i.e., ethics and effectiveness) identified by Margolis and Walsh may in fact never be reconciled *in theory*. Instead, they may only be balanced *in practice*. In this sense, the practical integration of ethics and effectiveness can emerge only because "in performing an action the end is *acting well*, that is acting with regard to the things that are good or bad for man, and *this end is part of the performance of action*" (Tsoukas & Cummings, 1997:665).[i]

In sum, we suggest that practical wisdom provides an alternative concept of individual ethical decision-making and action that does not involve abstract, rationally codifiable rules or guidelines, but instead an embodied practice of dealing with the ambiguity, mutability and ungeneralizability of the human social world. This notion undercuts the traditional distinction between practice-based, context-specific 'prudential' action and 'moral' action, seen as guided by clear-cut, universal, principles (Turiel, 1983). Practical wisdom emphasizes the tacit knowledge that is developed through the course of human experience and it refers (following our reading of Sternberg, 1998 in light of Gadamer 2002 [1960]) to the balance of different interests and responses to the environment as an ethically normative end in itself.

So then, does practical wisdom provide a way to conceptualize the 'virtuous' integration of ethics and effectiveness? In the following section, we explore this possibility and introduce a framework that differentiates three modes of individual decision-making practice in terms of the extent to which they integrate ethics and effectiveness.

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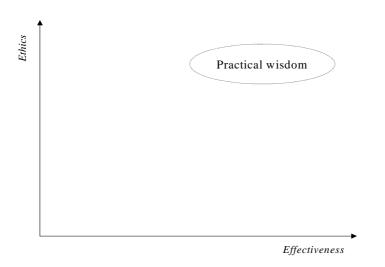**Section 3: Toward a Hermeneutics of Wise Practice**

As described above, the concept of practical wisdom indicates that the antinomy that separates ethics from effectiveness may be reconciled as a balance that is struck not in theory but *in practice*. Indeed the point of introducing practical wisdom as an 'alternative' concept of ethical decision-making in response to the problem of uncodifiability is that it remains impossible to substantiate precisely what the 'balance' is abstractly, in theory. Instead, we now wish to focus on concrete examples of how the balance appears to be struck in the course of organizational practice. However, in order to describe and differentiate between specific practices, we first need a methodological approach that is coherent with the concept of practical wisdom itself.[ii]

Follow Habermas' (1968) differentiation of technical, practical and emancipatory forms of knowledge, we suggest that hermeneutics (esp. following Gadamer, [1960] 2002) provides an appropriate methodology with which to study practical wisdom in organizations (cf. also Czikszentmihalyi and Rathunde, 1990). A venerable practice with roots in theology and philology, hermeneutics has recently been referred to within organization studies as a mode of interpretative inquiry that focuses on the collective construction of meaning. Typically applied to communication processes (Heracleous & Barret, 2001), it has also been applied to performance (Welker, 2004), conduct (Packer, 1984), culture (Geertz, 1973), politics (Taylor, 1976), narrative processes (Czarniawska, 1997; Hatch, 1996) and ethics (Ricoeur, 1981; Gadamer, 2002[1962].). In each of these cases, hermeneutics attends to the context-specific dimensions of the phenomenon in question; aspires to intersubjective validity in which truth claims remain always subject to further interpretation and critique; and affirms the intrinsic normativity of the interpretations themselves. A hermeneutic methodology can thus serve to develop greater understanding about *phronesis* in practice.

As a phenomenon unto itself, practice has been addressed by organizational theorists (cf. Orlikowski, 2002; Contu and Willmott, 2003) seeking to integrate considerations of structure and agency, and there is growing interest in strategy-as-practice (cf. Balogun, Huff & Johnson, 2003; Hendry & Seidl, 2003; Heracleous, 2003; Jarzabkowski, 2004; Johnson, Melin & Whittington, 2003; Régner, 2003; Whittington, 2003).[iii] Moreover, philosophers and social theorists have argued that practice cannot be understood without

reference to its normative dimensions (e.g., MacIntyre, 1984; Bourdieu, 1990; Habermas, 1990; Nussbaum, 2001, etc.). In this light, we present the terms of Margolis and Walsh's antinomy – ethics and effectiveness – as structural elements of *an interpretative, hermeneutic framework for understanding the extent to which individual decision-making practices in organizations are practically wise.*

Figure 1: An interpretative framework for
understanding the integration of ethics and effectiveness

In the figure above (Figure 1), ethics should be considered as one aspect of decision-making practice, specifically, that aspect which concerns 'the good' as such. At the level of the framework, the axis itself remains neutral about what may or may not be good, functioning instead as a question to be addressed in the interpretative process: 'what is good?' Effectiveness should be considered as another aspect of decision-making practice, specifically, that aspect which concerns the instrumental relationship between means and ends. Similarly, at the level of the framework, the axis remains neutral about how specific means may or may not lead to specific ends, functioning instead as a question to be addressed in the interpretative process: 'what is effective?'

The interpretative framework functions as these questions (i.e., what is good? what is effective?) are posed with respect to specific practices in concrete organizational contexts. Thus this framework can be contrasted to traditional forms of decision-making research,

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where the criteria of goodness and effectiveness are identified in advance, and specific behaviors are evaluated based on the extent to which they conform to these objective criteria. Instead, this framework elicits subjective criteria of goodness and effectiveness from the individual actors themselves, and in turn, enables reflection on the extent to which those actors enact the moral and performance imperatives that they espouse. In this sense, we return to the question of the discrepancy between espoused and enacted values, but without the presupposition that the values themselves should be universal, timeless and defined *ex ante.*

The framework thereby functions as a way to interpret specific practices, and to compare different practices in terms of a) how ethics and effectiveness are defined or construed by individual actors in concrete organizational situations, and b) the extent to which ethics and effectiveness are integrated through enactment.[iv] More precisely, the framework enables an interpretation of the extent to which specific decision-making practices are practically wise.

To the extent that this framework contributes to greater understanding about the wisdom of specific individual decision-making practices, it also raises questions concerning other modes of practice. What about those practices that enact ethics but not effectiveness? Or conversely, effectiveness, but not ethics? We propose that the two axes described above can be used to differentiate the following three modes of practice (Figure 2):

Practical wisdom: Individual decision-making practices that meet context-specific criteria for both ethics and effectiveness are, in accordance with the theoretical sources introduced above, practically wise. Following the analysis outlined above, such practices effectively enact the common good insofar as they strike the balance of interests, time horizons and responses to the environment.

Moral clumsiness: Individual decision-making practices that appear to enact the context-specific criteria for the ethical good without simultaneously meeting the context-specific criteria for effectiveness can be referred to as 'morally clumsy' (Hutchinson, 1995 as quoted in Tsoukas & Cummings, 1997:665), notes how "it is possible to have the right values

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without knowing how to achieve them in practice."[3]   Morally clumsy practices may, for example, be characterized by a strong willingness to strike a balance of interests, but an inability to select the most appropriate course of action in order to achieve that balance. They may also involve a conscious and deliberate subordination of effectiveness criteria to ethical criteria – indeed, moral clumsiness may even go so far as categorically to reject efforts to meet effectiveness criteria because they are seen as intrinsically 'amoral'.
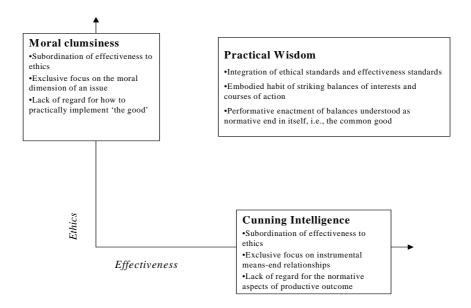
Cunning: Following Aristotle and other sources in the classical Greek tradition (cf. Detienne and Vernant 1978), cunning (in Greek: *metis*) refers to a form of intelligence that is based in tacit knowledge (Letiche & Statler, 2005) and that seeks advantage for its own sake. Although cunning may be necessary for survival (and, by extension, for maintaining strategic advantage in an organization), Aristotle emphasizes that cunning is not sufficient for the achievement of human well-being (Statler & Roos, 2003). When values and normativity are important dimensions of a problem (and following the analysis of practical wisdom, these dimensions are intrinsic to all aspects of human affairs), modes of individual decision-making practice that exhibit cunning intelligence can prove deleterious.[4]

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[3] Similarly, Raven (1977; 1984, quoted in Maclagan, 1991), "distinguished persons' values from the competencies needed to realize these."

[4] Cunning behavior may also be characterized by an instrumentalization of ethics: the latter is considered to the degree that it will provide effective in promoting a given goal. In organizations, this goal is predominantly understood in terms of profit maximization. In economic models of managerial behavior (such as the principal-agent model of the firm), managers are frequently described as using resources, power, but also normative rhetoric (i.e. "ethics") instrumentally in order to pursue self-interest. In other terms, the cunning person might argue in favor of leaving ethics aside from decision-making, by using a formalist justification. This justification would emphasize the separation of the the subjective, personal, and situation-specific from the moral, understood only in abstract, universalist terms, and which is approached only by stripping the context-specific from a given issue.

Figure 2: Hermeneutic framework for understanding
wise decision-making practices

Moral clumsiness
•Subordination of effectiveness to ethics
•Exclusive focus on the moral dimension of an issue
•Lack of regard for how to practically implement 'the good'

Practical Wisdom
•Integration of ethical standards and effectiveness standards
•Embodied habit of striking balances of interests and courses of action
•Performative enactment of balances understood as normative end in itself, i.e., the common good

Ethics

Effectiveness

Cunning Intelligence
•Subordination of effectiveness to ethics
•Exclusive focus on instrumental means-end relationships
•Lack of regard for the normative aspects of productive outcome

Section 4: Discussion and Implications

The interpretative framework we have developed here should provide a way to understand how specific individual decision-making practices can be differentiated in terms of the extent to which they integrate ethics and effectiveness. As such, the framework does not enable us to state definitively and objectively that a particular practice is practically wise, or morally clumsy, or cunning. Instead, it enables the interpretation of a specific practice and the evaluation of it on comparative normative grounds – e.g., where the CEO of Monsanto is wise if one accepts his definition of ethics as 'creating genetically modified organisms (GMO) to feed the hungry'; clumsy if one contests the claim that GMO's actually will feed the hungry in the long term without bringing about ecological disaster that kills hungry and well-fed people around the world; and cunning if one analyzes the claim to socially responsible behavior as a deliberate sham to increase shareholder value.

More broadly, our choice of a hermeneutic methodology was driven by an interest to build understanding (per Habermas' distinction) of how certain wise practices might integrate ethics and effectiveness. The test of whether this methodology actually serves this interest will be to apply the framework to concrete organizational cases. So for example, future research could involve interviews with individual actors in organizations, in which the individual, subjectively-determined and context-specific criteria for ethics and effectiveness

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are probed. These criteria could then be tracked through participant-observation (or collaborative research methods) of concrete practice. In turn, the researcher could present first-order findings to the individual actor for reflection and dialogue regarding the extent to which the practice did or did not integrate ethics and effectiveness as previously defined. Through this interpretative process, the wisdom of specific decision-making practices could be identified, better understood and evaluated.

This research process would not result in a universal taxonomy of behaviors, much less a codification of the rules that govern ethical behavior. Instead, it would help to substantiate a new theory of individual ethical decision-making that integrates the two elements of the antinomy presented by Margolis and Walsh (2003). In this manner, hermeneutic research could "acknowledge a range of inconsistencies and concerns, and still facilitate action" in the organization by contributing to the individual and organizational development needs and yield findings that are directly relevant to current challenges in corporate social responsibility (Margolis and Walsh, 2003: 284). Such hermeneutic and participatory research may, in turn, serve as a groundwork for more traditional forms of qualitative case study research and theory development (cf. Eisenhardt, 1989). Care should however be taken to ensure that these research methods remain coherent with the phenomenon in question (i.e., do not seek to codify behavior or define universal rules).

At the level of organizational theory, we suggest that the interpretative framework contributes to the existing literature on ethical decision-making in organizations. Most importantly, it signals a need to focus on practice, including extra-rational and context-specific elements such as identity and tacit knowledge as well as specific environmental dynamics and interests. While virtue ethicists have raised these issues (e.g., Solomon, 1992; 2003; 2004; Jones, 2005) the broad relevance of the concept of practical wisdom for organizational theory (including CSR, strategy, leadership, etc.) has not been fully explored. In this regard, additional theoretical research might establish the tradition of virtue ethics as meaningful alternative to the consequentialist and formalist/intentionalist notions of the moral good that are more traditionally accepted within business ethics.

Finally, reflecting back on Margolis & Walsh's (2003) call for theory that re-defines "the role, purpose and function of the firm", we suggest that the concept of practical wisdom

can not only acknowledge the contradictory performance imperatives of ethical action and firm performance, but can additionally *describe their integration at the level of individual decision-making practice.* We have deliberately addressed this challenge at the level of the individual rather than the firm following Wood's claim that the ultimate moral agent in the organization is the individual decision-maker (1991). In this regard, practical wisdom appears to provide a compelling new conceptual framework at this level of analysis. At the same time, because practice always takes place in a social milieu, our framework also implicitly addresses inter-subjective as well as structural-level variables. Thus future empirical research is necessary to understand how wise decision-making practices emerge between individuals, within groups, and at the macro-level of the organization.

In conclusion, Margolis and Walsh (2003) have called for a new, normative theory of the firm that enables organizational researchers better to understand the relationship between normativity and efficiency. We have responded to this call at the level of individual ethical decision-making practices and focused on the concept of practical wisdom as a way to describe the integration of ethics and effectiveness. We have also developed an interpretative framework in the interest of producing greater understanding about practical wisdom in specific organizational contexts. While we acknowledge the provisional nature of this framework, we hope that it will contribute to the discourse focused on how social responsibility might become an integral part of organizations' strategy and operations.

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[i] In order fully to appreciate how this characterization of the moral good – i.e., where the performance of the action is a normative end in itself – provides an alternative solution to the antinomy presented by Margolis and Walsh, it is necessary to clarify how it differs from the two most prominent paradigms of ethical theory, namely intentionalism and consequentialism. Intentionalism holds that the moral value of action is to be located in the actor's intention. The

most prominent modern formulation of this notion is Kant's categorical imperative, which provides a simple test to determine whether an intention is moral or not – i.e., if the action can be formulated as a maxim and universalized for all rational actors without logical contradiction, then it is ethical. Within this paradigm of ethical theory, the antinomy remains salient so long as the individual decision-maker's intention to be ethical contradicts with the intention to be effective. Consequentialism, by contrast, holds that the moral value of action is located in the effects, or consequences of action. The most prominent modern formulation of this notion is Mill's principle of utility, which suggests that moral actions should optimally produce the greatest good (i.e., utility) for the greatest number of people. Within this paradigm of ethical theory, the antinomy remains salient so long as the effectiveness of a given organizational action appears to produce only limited utility.

The Aristotelian tradition of virtue ethics differs significantly from both of these paradigms, primarily in terms of the extent to which the moral good can be codified in principle or in accordance with rational laws. This third paradigm of ethical theory locates the moral good in the performance of actions in accordance with virtues – where the virtues themselves do not exist as natural or rational laws, but instead emerge within communities, and remain open to interpretation by its members. Thus while the performance of ethical action remains wholly relative to circumstances, Aristotle's notion of 'the golden mean', characterized following Sternberg as a balance of interests and responses to the environment, provides a compelling ethical ideal. And while for consequentialist ethicists (e.g., following Mill), the moral good is the extrinsic goal of action, for virtue ethicists, it is the intrinsic, signature characteristic of moral action (Nussbaum, 2001; Solomon, 1992). For our purposes, , the antinomy that separates ethics and effectiveness is resolved when the balances are struck in practice, i.e., when ethics and effectiveness are performatively integrated.

[ii] The question whether it is possible to generate scientific knowledge about normative or ethical matters has been debated since the origins of philosophy in ancient Greece (Nussbaum, 2001). Aristotle's position on the point is that the social world is different from the natural world insofar as it does not adhere to immutable laws and thus cannot be known with any certainty – thus the need for 'phronesis'. If we accept that practical wisdom is not based on natural or logical necessity, it should not be studied using a research methodology designed to generate propositional theory or testable hypotheses. Instead, it should be studied using a research methodology that a) acknowledges the normativity of knowledge itself, b) accepts that the 'object' of knowledge remains historically and socially context-specific, and nevertheless c) takes up the challenge of identifying specific forms of action as 'virtuous', presenting these claims as interpretations that remain subject (with respect to their validity) to comparison with other interpretations developed through similar or alternative methods.

[iii] We believe there is great potential in this growing stream of literature to make theoretical and empirical contributions relevant to Margolis & Walsh's call.

[iv] By highlighting points of performative contradiction (i.e., where the espoused virtue is not practiced) the framework thus directs our attention to the role of integrity in the formation of character (cite cite Solomon?; Walker 2002; MacIntyre, 1984; etc.)