# Values and the Foundations of Strategic Management

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ABSTRACT. The purpose of this paper is to analyze the role of values in strategic management. We discuss recent criticisms of the concept of strategy and argue that the concept of value helps reconcile these criticisms with traditional models of strategy. We show that Andrews' model of corporate strategy rightly takes morally significant values to be essential to effective management. We show how the notion of value can be clarified and used in research into various conceptions of corporate morality.

## Introduction

We believe that research on strategic management has paid insufficient attention to values, with the result that some current theories of strategic management give incomplete accounts of why managers adopt certain strategies and of why strategies work or don't. The tendency to underestimate the role of values is evident in several predominant themes of current research in the field. For example, some theorists are concentrating on: (1) plugging the supposed gap between "strategy formulation" and "strategy implementation" (e.g., Hrebeniak and Joyce, 1984); (2) elaborating more sophisticated theories of "strategic control" (e.g., Lorange, 1984); (3) arguing that "culture management" is different from, and more important than, strategic management (e.g., Deal and Kennedy, 1982); and, (4) establishing sophisticated empirical measures of strategy and performance that are based largely on observable properties of organizations (e.g., Montgomery, 1982). We shall outline a different and, at some points, incompatible approach.

Our argument is simply this: if we understand what role values play in strategic management, then any theory of strategic management that we may develop will be more coherent and more powerful. Any theory of strategic management, furthermore, necessarily deals with a concept of corporate morality. Our conclusion will be incompatible in important respects with traditional views of strategic management, as well as with recent positions that attack traditional models. But we will find something to agree with in both of the general approaches we criticize, and will find some possibility of reconciliation as well.

We proceed in several steps. In the next section, we describe some current criticisms of strategy and unpack a few of their less evident implications. We then return to strategy's roots by analyzing the role of values in the Harvard Policy Model. Then, building upon an argument that values are unmysterious and irreducible entities, we show that the theory of corporate morality presupposed by the Harvard Model has some promise and some difficulties. We conclude that the Harvard Policy Model has considered certain stakeholders' values with insufficient reflection. Broadening our scope, we then argue that value-free views of strategic management are either incoherent or impractical. The paper concludes with consideration of the implications of our view for research and practice in strategic management.

## The attack on corporate strategy

Many of the recent attacks on modern theories of management rely heavily on the premiss that the

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concept of "value" has not been adequately used or understood. In the managerial literature we find Peters and Waterman (1982), Ouchi (1980), Pascale and Athos (1981), Deal and Kennedy (1982) and others arguing that corporate managers have relied too heavily on analytical models of business – in particular, on models of strategy that apply better to zoology than to the study of organizational life. Missing from the tool kit of MBAs from top business schools, of consulting firms, and of modern corporate managers is a profound understanding of human beings, such as employees and customers, whose acts are based on values, according to these critics.

Peter and Waterman (1982) call for "hands on, value driven" management and a "bias for action" that seems incompatible with the "rational-analytic" style that has been equated with strategic management. Ouchi (1980) advocates understanding the role of trust and community in organizations. Pascale and Athos (1981) propose adding "sharing values" and other "soft S's" to the strategy-structure-systems triad that is prevalent in most contemporary management theories. Deal and Kennedy (1982) focus on culture, rather than strategy, as the general manager's primary concern. These theorists suggest that we ought to pay as least as much attention to socialization as to strategy. Articles in the popular business media denigrate strategy and strategy consultants, and claim that companies that adopt explicit strategies are no better for it. In short, the concept of strategy as the central metaphor for business activity is quickly going out of vogue in the managerial world. But the attack on the concept of strategy does not end there.

In the academic literature we find a similar disparagement of strategy. A recent issue of *Administrative Science Quarterly* focused on culture exclusively as the key to understanding organizational behavior. Weick (1979) and others have argued that management is a symbolic activity, largely bereft of any choice that matters. Population ecology theorists (McKelvey and Aldrich, 1983) have advanced the view that, for the most part, the environment determines organization survival with the result that a person's choice is of little importance in the process. (See the first chapter of Pfeffer (1982) for a summary of these developments.)

One implication of this line of argument seems to be that if we want to understand why organizations succeed or fail, we would do better to study their cultures, their symbol systems, their myths, heroes, and rituals, and their environments rather than their strategic management processes and postures. If we do study the strategic management processes, we should see them as symbolic actions and not as rational and effective attempts to align the organization with its environment in order to achieve certain objectives. So say the critics, and some of them add that the symbols themselves do not matter very much. For these, the environment is the overriding determinant, for we can adequately explain and predict corporate performance by looking at population-level variables. On this view, strategy formulation and implementation is just part of random variation, or at best "morale management".

We agree that culture matters. As organizations are human institutions, people's behaviors are necessarily salient and can be presumed to figure in any account of what organizations do. We have no argument with corporate anthropology. Our view is simply that strategic management, one slice of human behavior, can be understood only in the light of the activating force of values. And, when we ground strategic management in values, we go far beyond "symbolic management" (see Deal and Kennedy, 1982).

We intend to defend and develop three points that these critiques of strategic management tend to ignore. First, values have always been a crucial element of models of strategic management. Peters and Waterman (1982) did not invent them, and no logical account of population ecology can exorcise them. Some current strategic management models appear to ignore values, but in fact these views often come equipped with significant implicit systems of values. Far from genuinely abandoning values, these models actually include many cases of corporate morality. (For a sample of the recent work in corporate morality see the essays in Beauchamp and Bowie (1979), De George and Pichler (1978), and Regan (1984); and, see the extensive arguments of philosophers such as Braybrooke (1983), Donaldson (1982), De George (1982), Velasquez (1982), and Solomon and Hanson (1985). Our analysis builds on the concept of "value" that is present in the work of most of these philosophers.) Second, the critics often ignore the interdependence that underlies strategic

choice and, thus, the importance of the values of a diversity of strategic actors. In simple terms, strategic management only makes sense in the context of interdependent choice. Third, the critics sometimes misunderstand the nature of values. Values are not slogans, and they are not mysterious entities. They are both reasons for and causes of action.

These are serious and fundamental issues. They warrant a reexamination of the concept of strategy. We start with a standard and influential view of corporate strategy.

## The Harvard Policy Model

Kenneth Andrews' *The Concept of Corporate Strategy* (1971) is the classic statement of an influential model of corporate strategy. The concept has been developed at the Harvard Business School during the past 60 years, primarily through teaching and research in what is called Business Policy. The Business Policy course was originally seen as a way to integrate marketing, accounting, finance, production, R&D, and other functions of business at the level of the General Manager or Chief Executive Officer. As the course developed over time, a field of research was born and in turn spawned several generations of strategy models. Each of these models has incorporated some features of the Harvard Policy Model. (Figure 1 is a depiction of the well-known elements of the Harvard Policy Model from Andrews, 1980.) One of these common features is crucial: the role of values.

Andrews makes it clear that values play a central role in understanding corporate strategy (Andrews, 1980, p. 81f):

> A value is a view of life and a judgement of what is desirable that is very much part of a person's personality and a group's morale. From parents, teachers, and peers, we are told by psychologists, we acquire basic values, which change somewhat with acquired knowledge,

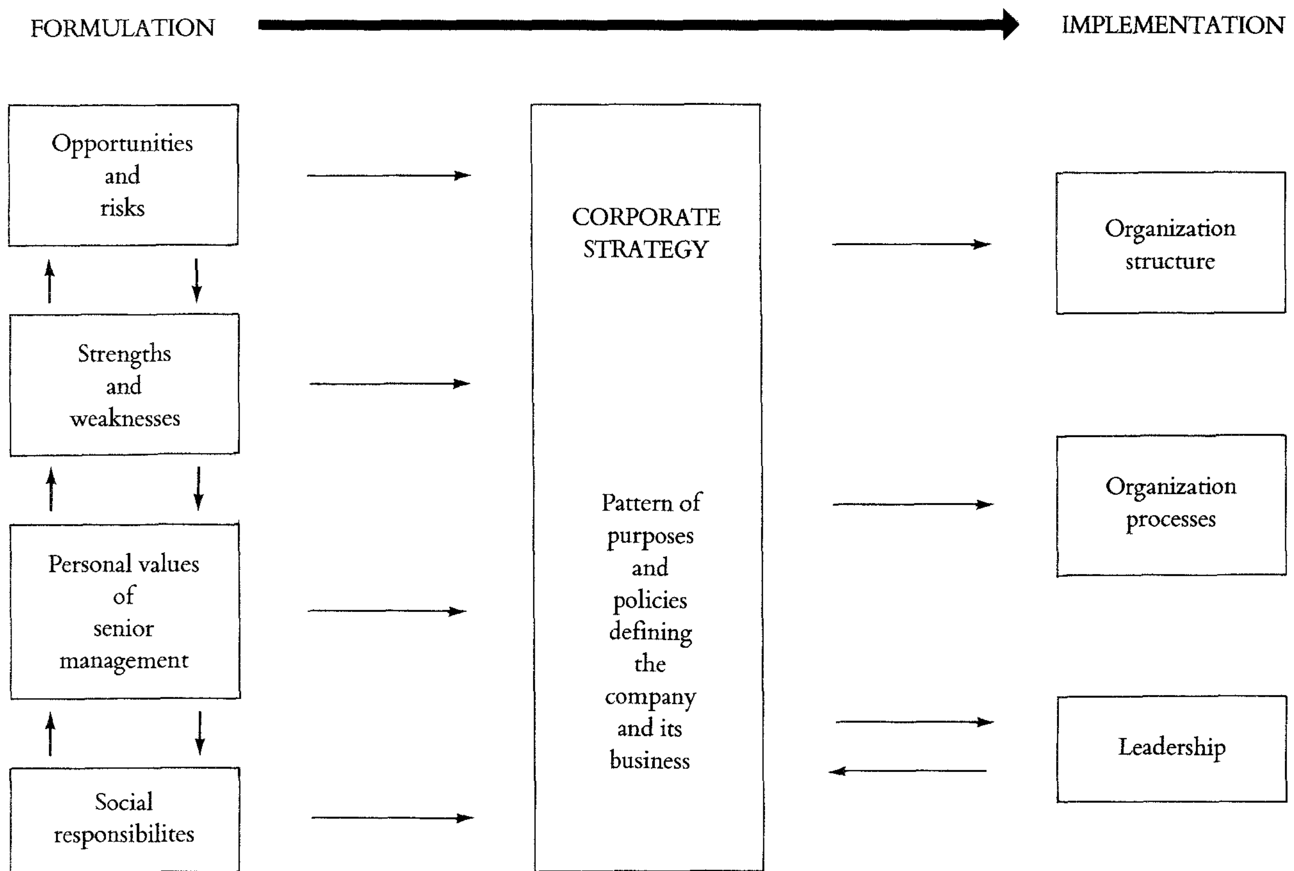


Fig. 1. The Harvard Policy Model.

> analytical ability, and self-awareness, but remain a stable feature of personality . . . . Despite the well known problems of introspection, we can probably do more to understand the relation of own values to our choice of purpose than we can to change the values of others. Awareness that our own preference for an alternative opposed by another stems from values as much as from rational estimates of economic opportunity may have important consequences.

Andrews holds that while values are not always readily evident, they nevertheless have important consequences. They are a significant part of the explanation of individual actions and, according to Andrews, of corporate actions as well. Rather than apologize for the dependence of corporate strategy on personal values, Andrews urges us to shout it from the rooftops (Andrews, 1980, p. 79, emphasis added):

> We should in all realism admit that the personal desires aspirations and needs of the senior managers of a company actually do play an influential role in the determination of strategy. Against those who are offended by this idea either for its departure from the stereotype of single-minded economic man or for its implicit violation of responsibilities to the shareholder, we would argue that *we must accept not only the inevitability but the desirability of this intervention.*

### *Interpreting Andrews' arguments*

Andrews can be read as claiming that any theory of corporate strategy must attend to two important value-laden issues. The first is whether the corporate strategy is acceptable to senior management. According to Andrews, the test of that is whether the strategy is compatible with the values of senior management. Congruence is necessary, on this interpretation, if senior management is to fulfill its role as leader of the organization. If a particular strategy is not compatible with the values of senior management, then by implementing it the senior managers are acting in *bad faith*. Bad faith entails articulating the strategy in their role as managers, while privately disagreeing with the foundations of the strategy. So we attribute to Andrews the following hypothesis, which we call the *Requirement of Good Faith*, (GF):

> (GF) A corporate strategy is effective only if the senior managers of the organization can act on it in good faith.

According to Andrews then, acting in good faith is a necessary, but not sufficient, condition of the effectiveness of corporate strategy. Another way of putting (GF) is this: an effective corporate strategy must not require senior management to perform actions that violate or compel them to abandon their values.

The second value-laden issue to which corporate strategy must attend, on our interpretation of Andrews, is that of the social responsibility of the corporation (see Andrews, 1980, pp. 88–92). We can hypothesize on his behalf a *Social Responsibility Requirement* (SR) for corporate strategy:

> (SR) A corporate strategy is effective only if it prescribes actions that are consistent with the corporation fulfilling its social responsibilities.

Given the first requirement (GF), the second is not as controversial as it may appear, nor is it very far from (GF). *In effect, (GF) leaves it to senior management to determine the social responsibilities of the corporation.* In effect, (GF) leaves it to senior management to determine the social responsibilities of the corporation, at least to this extent: it is socially irresponsible, and managerially ineffective, for managers to design a corporate strategy that violates their conception of the organization's social responsibilities. For it is irresponsible to do what one believes to be irresponsible (even though it is not necessarily responsible to do what one believes to be responsible). An act that comes about as a result of one's setting out to do wrong is the moral equivalent of doing the right thing accidentally. Senior managers cannot be made to act consistently contrary to their values, and it is certain, as Andrews tells us, that they will have values that have something to do with the social responsibilities of the corporation. Once we know what senior managers value with respect to those social responsibilities, we know the limits within which the firm can reliably act. So (SR) appears to be a corollary of (GF). In short, the Harvard Policy Model as we interpret it implies that no corporate strategy that violates either (GF) or (SR)

can be effectively implemented and that (GF) and (SR) are necessary conditions of effective corporate strategy.

The claim that we must understand the role of values in corporate strategy is a key part of Andrews' version – to all appearances a canonical version – of the Harvard Policy Model. If we also believe that effective corporate strategy is an important element of corporate success, then values are crucial to corporate success, and understanding success requires understanding values. To put it another way: you can deny that values matter to corporate success, but only if you are willing to deny that corporate strategy makes any difference.

To hold that (GF) and (SR) are false would be to embrace something like the following, which we might call the *Bad Faith Hypothesis*, (BF):

> (BF) A corporate strategy may be effective even if it prescribes actions that are inconsistent with the personal values of the senior management.

Interpreted this way, is Andrews correct? Before we can give our assessment, we need to clarify the notion of values and to say something about the role they play in human action. In doing so we take an approach first delineated by Aristotle, and refined by British and American analytical philosophers in the past forty years. In our view, the most mature synthesis has been achieved by the distinguished American philosopher Donald Davidson (Davidson, 1984), who makes no secret of his debt to Aristotle and to many recent philosophers who would probably agree with most of what we say in the next section.

## Values

What does it mean to say that Jones has a particular value or that she values something? It means essentially that she wants that thing, or wants that state of affairs to come to pass. How do values differ from ordinary desires? There is no simple dichotomy. Values are relatively permanent desires: I want a drink right now (and probably will not tomorrow morning), but health is a value of mine because my wanting health is a settled disposition rather than a want that comes and goes. The first of the two citations from Andrews above indicates that he understands values this way. Values are also more often intrinsic rather than instrumental wants, in this sense: when I say I value something, I am probably talking about something that I desire for itself alone, rather than because it is a way of getting something else. We are inclined, moreover, to say we value something that is good not only for ourselves but for others – integrity or clean air, for example. Moral values, to which we turn later, are that way.

### *Values and actions*

Values explain action as desires do. When Jones acts intentionally, she has a reason for acting, and the reason is, in broadest terms, that performing a certain action will have a relatively desirable result. That is what Jones believes, at any rate; so we may say that an intentional action is the result of a certain desire and a certain belief and that they are its causes. The belief is (or entails) that doing a certain act will fulfill the value. Aristotle seems to think of intentional acts as being based on a practical syllogism, whose major premiss is a statement of what sort of thing one wants, while the minor premiss is a statement that a certain thing is just such a thing. The conclusion is an action.

Now Jones may want to do something for no other reason than that she wants to; watching a tennis match is a possible example. Or she may want to do something because it has certain results, direct or indirect, that she favors; for example, she may compliment her boss's wife. Or she may want to do it because it is an exemplar of the kind of act that she prefers to do; an act of generosity, perhaps. In such cases, we say that Jones values watching tennis matches, having a successful career, and generosity.

Values can conflict, as desires can. In some cases, one may be unable to act according to all of one's values, in the sense that the more important one overrides a lesser one. We can infer that some values come with an "unless . . ." clause attached, so that one can, without self-traduction, choose the most important of conflicting values if necessary. Suppose, for example, that Jones must choose between seeing the Wimbledon Women's Singles Final and joining

the boss's wife in raising money for some worthy charity. The passion for tennis might override careerism and generosity both. (Whether Jones is generous is probably a matter of how many other values can override generosity and how easily.) Still, one cannot act intentionally without valuing something accordingly. An intentional act is one to which it is appropriate to apply the question "Why did you do that?" in a sense that calls for a statement that directly or indirectly tells what the agent values.

It is less obvious, but no less important, that one cannot value something without ever acting accordingly when an opportunity arises. What would it mean to say that I value watching tennis but never do it, even when I have the opportunity and nothing to do that I value more? What reason could there be to say that I value being generous – that is, value that I be generous – if I quite consistently behave stingily? People do sometimes violate their own values, often under pressure. Regret over one's behavior is a sign that that has happened. But values on which one never acts are not values at all, only claimed or espoused values.

As Andrews suggests, and psychologists have argued persuasively, we do not always know what our values are. An immature or shallow person may be unable to characterize his values even roughly. A neurotic may be profoundly deceived about what he values. An ideologue may claim to value freedom, but may reveal by actions or by more specific pronouncements that what he really values is whatever profits his/her company or party. We detect self-deception and simple dishonesty by comparing avowals with action. Experience at this sort of thing leads us to attribute values by looking at action rather than at avowals though in some cases action must be interpreted with care: for example, someone who consistently demands honesty in others but is himself often dishonest may be said to value honesty in that he does act on it, in a way. Values bear a similarity to unobservable entities that natural scientists believe in. We cannot know by observation that they are there, but must instead postulate them in the general case and infer them in the individual case, even sometimes when the individual case is our own.

Nothing we say here should be taken to imply that organizations or even individuals always know what their values are. Characteristically rational people think about their values before acting, then try to act consistently with them. Others may understand their own values best by looking at their actions after the fact and finding patterns in them. Much the same is true of organizations, of which some are proactive while others follow strategies – hence, in some cases, values – that emerge without having been explicitly chosen in advance. (See further Mintzberg, 1978; and Mintzberg and Waters, 1985, for example.) Nor do we deny the causal influence of the environment on either individual or organizational values. On the contrary, understanding this influence is arguably a necessary condition of having an explicit and coherent set of values.

That values are not infallibly reportable by their owners and not readily inferred from behavior, which suffers so many other causal influences, is no reason for pretending they do not exist or for trying to reduce them to something easily identifiable. We have argued that values are important influences on corporate behavior and that therefore they ought to be understood and identified. Because they are so elusive, however, some researchers may understandably see a better payoff in analyzing other influences (such as market structure, for example) that are undeniably important and in some respects easier to deal with. If our account is plausible, both the traditional commentators on strategy and strategy's critics would agree that values are worth studying in spite of the difficulties.

### *Moral values and corporate morality*

Moral values fall into that subclass of values having to do with interacting with other people or acting in ways that affect them. That is, if an action affects others, that action has moral implications. What is important to our current concern is that moral values motivate action much as other values do. In particular, there is no compelling reason to believe that one's own welfare is the only thing that could be valued in itself, serving alone as an ultimate reason for acting. (Attempts to defend that particular position usually involve stipulating that whatever Jones values is, by definition, in Jones's interests.)

A theory of corporate morality is an account of the moral obligations of corporations and, hence, of corporate managers in their roles as corporate managers. It might include, though not be exhausted

by, a theory of social responsibility. "Social responsibility" is but one possible moral value that a corporation ought to observe in its strategic activities. A theory of corporate social responsibility presupposes, and is justified by, a theory of corporate morality. In much the same sense, we have interpreted Andrews as holding that a theory of corporate strategy presupposes a theory of corporate values.

We will have more to say shortly about corporate morality. It is important to note here, however, that strategy theorists and practitioners alike usually assume one particular theory of corporate morality. This, of course, is the "stockholder priority" view. The position is one of moral significance – that is, of the moral kind – since it prescribes corporations' and managers' behaviors relative to others.

*Reprise on values and strategy*

We emphatically approve of the renewed emphasis on values, as advocated by strategy's contemporary critics. Yet, much remains to be done to make the necessary linkages among values, moral values, and strategy. Values are absolutely central to strategy. We claim that the whole point of corporate strategy is to act in the name of the organization intentionally, rather than randomly or gratuitously or according to the dictates of someone outside the organization. It follows that acting strategically is a matter of acting according to certain values. There can be no strategy without objectives, simply because there can be no means without ends. Values are the most general and most nearly-intrinsic objectives, and they are the ends to which other corporate objectives are means. To deny that they guide corporate strategy is to hold that there can never be any point to doing corporate strategy.

## The good faith requirements

Is Andrews, as we have construed him, correct? Must a senior manager act in good faith, if strategy is to be effective? Must the strategy be a socially responsible one? Reasonable as it may seem that managers do better if they believe in what they are doing, (GF) and (SR) appear to be positions for which there is no proof.

*Good faith and action*

The first move in the defense of (GF) is to point out that it is not quite so stringent as it may appear. It seems to allow that a manager may decide to go along with a particular strategic decision of the firm, even if she would not have made that decision if it had been up to her alone. Such a decision would seem to be opposed to her values, but in a clear and straightforward sense it is not. She may well take as a value the proposition, "If a particular decision is made on the basis of due process, I will abide by it and work to realize it unless it violates some further, more permissive standard of my values". Hence, she has this overriding value to go along with decisions made by due process, unless they are genuinely terrible decisions by some further standard she must invoke from time to time. Thus, the action taken against her better judgment may not, under the circumstances, be incompatible with her values, most of which have an implicit "unless . . ." clause attached.

Managers and professionals often find themselves playing roles that impose obligations not entirely compatible with the values they otherwise have. A manager may follow orders he would not himself have given, if it were for him to decide. It may be that managers' orders are normally carried out. An attorney may have a professional duty to represent the interests of a client he despises and to bring about an outcome he believes the client does not deserve. In that case the value judgment may be that, taking everything into consideration, it is more important that all people have competent legal representation than that this particular wretch gets what he deserves. This sort of situation may cause moral, but not logical, discomfort, since one sincerely held value is overrridden by another, more important one, and one does what one values most. The Harvard Model seems to accommodate this sort of situation. It would be in both conceptual and empirical difficulty if it did not.

*Andrews and good faith*

What Andrews appears not to permit is this situation: a manager, convinced that a particular course of action is a mistake, can be counted on faithfully to

execute it. That is, if the manager values refraining from a certain act more than he values loyalty to the chain of command and his job, then there is no good reason to expect him to follow orders. Most people act against their values from time to time, and managers are no exception. But if we are talking about genuinely-held values rather than merely espoused values, then the manager's following orders to do action X would provide good, though not necessarily conclusive, reason to believe that he didn't value not-X above following orders.

So we can agree with Andrews, if we interpret him to mean that managers cannot be relied on to act against their views about what one ought to do *with all considerations taken into account.* A conceptual point, this has something in common with the statement that claustrophobes cannot be relied on to stay in small enclosed spaces. It is not trivial or useless on this account, however. To the extent that managers can and will say what their priorities in values are – not an easy task in every case, but often possible – an organization can make determinations about what may be expected of managers.

We can interpret Andrews as also making an empirical point. If an organization frequently calls upon people's loyalties or senses of duty and pressures them to set aside their personal preferences for the good of the company or in deference to the chain of command, the loyalty-related values may be strained to their breaking point. That is, people will become less loyal and more inclined to give new priority to those first-order values that are unrelated to their position in the organization. Values do change in response to unsatisfactory experience, as do people's ways of applying them to specific cases. This may happen when the obedient agent begins to suspect himself of having placed more value on, say, personal comfort than integrity, and so having actually traduced his values in the process. The point is a plausible one, though Andrews has not actually proved it.

### *Good faith and the CEO: one limitation of (GF)*

Andrews appears also to hold that it is the values of senior management that determine the values of the organization. Here, too, we must take him to be referring to values in the taking-all-things-into-account sense. A CEO might prefer to take one course of action except that he has the interests of the organization to think about, and they militate in favor of another. So it is his value in the broader sense that determines his action.

As might be expected of a model originating from the Harvard Business School, Andrews writes as if the typical organization is one in which the CEO decides what the organization does insofar as it is possible for the organization to act freely. We take it that one of the more important messages from the corporate anthropologists and others who advocate attention to values, while deprecating strategy, is precisely that the CEO *cannot* get the organization to do just anything, that the culture and the values of the individual employees have to be "correct", or performance will be adversely affected.

That is one reason why consistency with top management's values is a necessary, but not sufficient, condition of effective strategy. The values of employees influence corporate action, for example. Neither individuals acting for themselves, nor corporate executives, can achieve all their objectives. But that does not show that intentional action is impossible or that values exert no influence. So the point does not necessarily destroy Andrews' position. It does, however, raise a question about it that we will address later.

### *Social responsibility and good faith*

Consider now (SR), the proposition that the only effective strategies are those that prescribe actions consistent with the corporation fulfilling its social responsibilities. To begin with it seems consistent with Andrews' overall position to interpret this to mean that effective strategies are consistent with what the corporation takes to be its social obligations. So the position is that a corporation committed to racial discrimination cannot effectively carry out a strategy that entails treating people color-blindly.

Understood this way, (SR) is a corollary of (GF). A CEO's conception of the organization's social responsibilities is a subset of his values. Leaving aside the issue of the CEO's power, the firm cannot accept certain social responsibilities but just never act on them, since we are talking about genuine and effective values, not just empty slogans.

Note that (SR) states that corporate strategy will

be effective only where the corporation fulfills its social responsibility. We have argued that (SR) is a corollary of (GF). But then why doesn't (SR) read "... consistent with *management believing* that the corporation is fulfilling its social responsibilities"? Haven't we gone too far in inferring something about actual social responsibilities? We have not. (SR) states fulfilling social responsibilities as a necessary but not sufficient condition of effectiveness. Now if management believes the organization is not being socially responsible, then it follows, according to Andrews' conception, that the organization is not in fact being socially responsible. A necessary condition of socially-responsible action is that it be done intentionally rather than by mistake or at random. In a corporate context, this means that top management must at the very least tacitly approve of the action. So management's belief that an action is socially responsible is a necessary condition of its being socially responsible. And, being socially responsible in a CEO's eyes is a necessary condition of the effectiveness of strategy. Thus, management's belief that an action is socially responsible must also be a necessary condition for the effectiveness of strategy. In sum, we hold that (GF) does imply (SR) as stated. Those who give moral credit for acts the agent does not consider moral may well disagree, but they can still agree to the important point that an effective corporation is one that acts on values that top managers hold.

### *Values and rational action*

There is another significant criticism to be made at this point against what Andrews says about values. In the first of the two passages quoted above, he contrasts values and "rational estimates of economic opportunity." In so doing, he obscures the truth that (1) economic opportunity is one possible value, or more likely a class of values, and (2) that there need be nothing at all irrational about values. In fact, consistently irrational behavior will begin to indicate a person's confusion about values, or an inability to act in accordance with them.

Andrews is not alone in supposing that there is an opposition between values (soft, subjective, etc.) and rational analysis (scientific, objective, etc.) It is true that my statement, "I value something", cannot be defeated by the kind of comparison to publicly observable facts that is characteristic of science. But values may be rationally criticized on grounds of inconsistency, or because they entail other values unattractive to the valuer, or (on moral grounds) because they are damaging to others. More to our present point, however, no intentional action is more rational than the values that motivate it and provide the reason for whatever rational analysis attends it.

## The Harvard Policy Model and theories of corporate morality

The concept of corporate strategy that Andrews articulates takes a certain distinctive view of corporate morality. Specifically, it makes an important assumption about the moral obligations of corporations and their managers acting in managerial roles. The theory assumes, and (GF) entails, that the moral values of senior management guide and, even to a great extent, determine the strategic actions of the corporation. We have interpreted the theory as holding that top management's values, at the very least, limit the intentional actions the corporation can take to those actions that are compatible with those values. To show that the Harvard Policy Model also assumes that moral values guide corporate action, we need only show that some of the personal values of senior executives are moral values and that corporate strategy sometimes prescribes actions that are actions with moral implications in that they affect the well-being of others, or inhibit or enable others in the pursuit of their lives' projects. It is readily apparent that this is true.

### *Moral values and the managerial view of corporate morality*

Consider American Telephone and Telegraph during deliberations on whether to divest the Bell Operating Companies. This decision had a profound effect on people in at least the following groups: employees, suppliers, customers, local communities, and owners. Hence, the divestiture decision was a moral one — that is, a decision of the moral kind, whether or not it was a morally correct one. We have good reason to believe that Charles Brown, the chairman of ATT&T, acted in good faith. Credible reports of his agonized deliberations about the right thing to do suggest that he acted according to his

beliefs about the consequences of his decisions for others, their rights, and other elements in his own moral calculus. We can attribute to Andrews and the Harvard Policy Model the proposition that this corporate strategy of divestiture, like any corporate strategy, is to be evaluated as morally correct only if it is consistent with the moral values of senior management. Let us call this view that we have attributed to Andrews:

> *The Managerial View of Corporate Morality*: An action of a corporation is morally correct only if it is compatible with the personal moral views of the senior managers.

A direct consequence of this view is that only those actions senior management decides, in good faith, to take are morally correct. On the question of whether management acts in the interests of stockholders or other stakeholders in the firm, the Managerial View is silent. Much of what Andrews says and does not say suggests that he regards it as unimportant. His position is that values, including moral values, are important, but there is no need to look very far for standards. According to our interpretation and analysis, his view is that we need only look to the logic that senior management uses for its actions. Nothing is said about whether the values that guide senior management have to be either reasonable or genuinely moral values. He has not gone so far as to say that any corporate actions that senior managers values are acceptable, but he is silent on the question of what else might be needed to certify them.

### *Stakeholders and the managerial view: the punch line*

According to the Managerial View of Corporate Morality, the best answer to the question, "Why did AT&T develop and implement a corporate strategy of divestiture?" is this: because of the values of the top managers and their belief that divestiture would bring about a state of affairs consistent with their values, including values of the "social responsibility" class. But some managers and researchers, lulled by the assumption that it is senior management's values that will always determine corporate action, have failed to understand the complex way in which values actually operate in people's lives and in the turbulence of the contemporary business environment.

The punchline is very simple. The Harvard Policy Model and its descendants, when they focus on the role of values, take a damagingly oversimplified view of the relationship between the firm and its environment. If the values of senior management are the only ones that matter in strategy, then the corporation is seen as interacting with an environment made up of entities to which no values are ascribed – at least no values that make any difference to the effectiveness of strategy. To articulate this assumption is to refute it. We have to tread carefully here on two levels.

First, it does make sense to say that what the organization does must be consistent with the values of management, on pain of the possible consequences of bad faith. But good faith is not enough. In order to be effective, much more in order to meet the demands of morality, management has to conduct the organization carefully through a minefield of stakeholders' values. Suppose you are CEO at ABC Inc. The individuals and organizations in the environment that can make or break – or at any rate, help or hurt – your enterprise have values of their own, and (by definition) care about those values more than about anything else, including the good faith of your managers. The same is largely true of internal stakeholders. Certain critics of strategic management are correct at least in arguing that strategy can be effective only where the culture is appropriate for it. When people are constantly under pressure to override their self-regarding values in favor of those rooted in loyalty and the good of the organization, they cannot be depended upon to do their best. As we noted earlier, Andrews takes this position.

Second, without attention to the values of an organization's stakeholders, senior managers run the risk of presuming that their conception alone of the organization's social responsibilities is a justifiable conception. (SR), as a corollary to (GF), clearly reflects such an iconoclastic assumption. Once a senior manager sees her organization's social responsibilities as a matter of bargaining, explicit or implicit, among multiple stakeholders, however, she has moved beyond the narrow consequences of Andrews' position on (SR) and, accordingly, (GF).

This is not to say that either effectiveness or morality requires a manager to act consistently with all the stakeholder's values. Even if that were possible, it would likely be a disastrous strategy.

Morality requires just that managers respect the legitimacy of certain stakeholders' claims and leave them inviolate. What effective strategy requires is that managers understand stakeholders' values – hence their actions – as significantly determinative of the outcome of strategy.

## Value-free hypotheses

Against all that we have said thus far it might be argued that values are just not important to strategic management. Consider this value-free hypothesis (VF):

> (VF) The effectiveness of corporate strategy is independent of anyone's values.

This is no mere device for argument's sake. It is in fact a view that in some form seems integral to a number of current opinions about the effectiveness of strategic management. Those who hold that corporate strategy is simply a symbolic and ritualistic part of management's job appear to accept the implication that the effectiveness of corporate strategy is independent of whether management holds to the values that it claims, and of whether top managers act in good faith. From this follows the curious result that any values that management espouses at all – even values that are internally inconsistent or incoherent or perverse – will do as well as any others. For management does not matter, in this sense. Its intentional actions aimed at creating the organization's future will have nothing to do with whether the corporate strategy is effective. Thus, Brown's values and actions at AT&T, according to (VF), had nothing to do with the divestiture decision.

The same line of reasoning might be applied to every group affected by corporate strategy, and not just management. On that view, the effectiveness of strategy is independent of the intentional actions of all groups affected by it, including those who formulate it, those who implement it, those who buy the products that the corporation markets, and so on. This position too, odd as it may seem seems to be common. Strategic planners and managers who adopt portfolio models and the techniques usually associated with them omit, at least, the values of players in the environment from its calculus. In so doing, they espouse a rather strong variant of (VF). Portfolio approaches assume that strategic management is a game played by the firm with its environment. In defining the game, portfolio theorists consider the players in the environment in a highly-aggregated form. And if the other players are not considered as individuals, it is hardly surprising that not much attention is paid to their respective values.

In sum, *to hold (VF) is to hold that the effectiveness of corporate strategy is independent of all intentional actions of all groups affected by the strategy, since intentional actions rest on values.* This conclusion seems to be accepted even by those who hold that the effectiveness of corporate strategy is environmentally determined. For there are those population ecologists who appear to believe that the determinative influence of the environment is independent of the actions of the firm's stakeholders in that environment. We do not claim that their account of what goes on in the environment is necessarily incoherent. But it is one thing to say that we cannot explain all changes in the environment by looking at the values of its inhabitants (true), and quite another to say that those changes are independent of anybody's intentional action (false).

To leave values out of account in this way is to hold that the very notion of corporate strategy effectiveness is essentially useless, for the values of management, employees, and other stakeholders don't matter so long as management properly symbolizes what it is supposed to symbolize. (But it is not clear why that is important, either.)

Even (BF), the bad faith hypothesis, allows that there are such things as values. It just states that they turn out not to make the crucial difference. The more radical form of opposition to (GF) and (SR) is to say simply that values have nothing whatever to do with strategy one or another, or even that there are no values any more than there is Santa Claus (a position that Pfeffer, 1982, among others, seems to take seriously).

### *The irony*

The ironic aspect of all this is that concepts like corporate symbol systems and corporate culture are proposed to lead us away from the sterile concept of corporate strategy and back to basics like values. A great deal of insight can be gained, and trouble

avoided, by taking values into account from the beginning for what they are: namely, the motivating force of individual and therefore corporate action.

## Conclusions

If values, taken together with some causal beliefs, are the motivating force for action, then senior management's values are but one subset of the values that are at work in determining the most effective actions for corporations. Middle managers' values function in the same way, as do employees' values. This should not be news to those who make much of corporate culture as explaining corporate success. So, too, do suppliers' values, owners' values, and other stakeholders' values count, and this should not be news to those who believe that the environment is an important variable in determining corporate success. The Harvard Policy Model and its implicit Managerial View of Corporate Morality seems to oversimplify what is, in fact, a conflict of multiple stakeholders' values. In that way, the Managerial View leads us astray as we try to explain – or bring about – effective strategy.

We conclude that models of strategic management, and models of corporate morality as well, must systematically account for the values of multiple stakeholders. We do not claim to have made a startling discovery. Note that researchers such as Porter (1980; 1985) have concentrated on the fact that effective strategy requires that you do what competitors and others don't expect you to do, and such business acumen requires knowing what motivates competitors, customers, buyers, and other members of Porter's "value chain". We have couched this discussion in the language of values and tried to clarify several misconceptions about what values are. We have explicitly addressed the question of the role of morality in strategic management, which others such as Porter leave implicit. While the full-blown development of such a stakeholder theory of corporate morality must await another occasion, we can draw at least three significant conclusions from our analysis of the role of values and morality in strategic management.

First, there are many possible models of corporate morality. Figure 2 is illustrative of the kind of analysis that can be done.

One particular model has already been suggested: what might be called the Stockholder View of Corporate Morality. It says that managers are the loyal agents of stockholders, and that their actions in the form of strategic management are therefore

| Theories of corporate morality | Strategic management Literature (examples) |
|---|---|
| *Managerial view*<br>The corporation should act in a manner consistent with the values of senior management. | *Managerial view*<br>Andrews (1971; 1980) |
| *Stockholder view*<br>The corporation should act in the interests of stockholders. | *Stockholder view*<br>Wind and Mahajan (1981)<br>Porter (1980; 1984) |
| *Narrow stakeholder view*<br>The corporation should act in the interests of a small number of stakeholders. | *Narrow stakeholder view*<br>Peters and Waterman (1982) |
| *Wide stakeholder view*<br>The corporation should act in the interests of as many stakeholders as possible. | *Wide stakeholder view*<br>Ackoff (1981)<br>Mason and Mitroff (1982)<br>Freeman (1984) |

Fig. 2. Some theories of corporate morality.

aimed at furthering the interest – and presumably acting according to the values – of the stockholders. Generations of strategic management models seem to imply the Stockholder View. As a result, the issue of fully evaluating corporate strategies from the moral point of view and that of understanding the role of values, in general, in corporate strategy just never seems to arise. Stockholders are paramount, according to this view, and their values are assumed to be univocal and to center upon their apparent desire for increased wealth. Strategic management models along this line would include many portfolio theory models, value-added models, competitive strategy models, transaction cost models, and the like. The Stockholder View of Corporate Morality needs to be subjected to the same critical scrutiny as that accorded the Managerial View in the preceding sections. We could readily infer hypotheses similar to (GF) and (BF), with similar conclusions.

Second, in the formulation of guidelines for major directional actions of the firm, strategic management is by nature a process of values clarification, conflict, and in some cases negotiation among multiple parties who have something at stake in the strategy. The very logic of the concept of values requires that we see it this way. And, if values motivate one player, they can be assumed to motivate others, too. Both the Stockholder and Managerial views rest on a failure to see the effectiveness of corporate strategy within a universe of interdependent choices based on values.

Third, the claim that corporations with strong cultures will have no implementation problems would seem to be a consequence of our view. But it does not follow from our account that one solves implementation problems by getting people inside or outside the organization to change their values. *The idea that culture management is the way to take care of problems about the effectiveness and the morality of strategy is simply the Managerial View in a different guise.* Culture models are rationalized upon the inseparability of organizational and employee interests, yet are premissed, in large part, upon the ability of employees to adopt corporate values determined by senior managers to be "correct values".

The upshot of our view is that corporate strategy should be seen as taking place within a network of interdependent choices made by interested parties with agendas of their own. To understand corporate strategy in this way is also to understand the central place of the values of the parties involved. If we are to make progress in strategic management, we need to understand those values and take seriously the claims they generate. To do otherwise is to produce sterile analyses that do not explain, do not predict, and do not work.

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