Ingo Pies

The Ordonomic Approach to Business Ethics

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Autoranschrift

Prof. Dr. Ingo Pies
Martin-Luther-Universität Halle-Wittenberg
Juristische und Wirtschaftswissenschaftliche Fakultät
Wirtschaftswissenschaftlicher Bereich
Lehrstuhl für Wirtschaftsethik
Große Steinstraße 73
D-06108 Halle
Tel.: +49 (0) 345 55-23420
Fax: +49 (0) 345 55 27385
Email: ingo.pies@wiwi.uni-halle.de

Korrespondenzanschrift

Prof. Dr. Ingo Pies
Martin-Luther-Universität Halle-Wittenberg
Juristische und Wirtschaftswissenschaftliche Fakultät
Wirtschaftswissenschaftlicher Bereich
Lehrstuhl für Wirtschaftsethik
Große Steinstraße 73
D-06108 Halle
Tel.: +49 (0) 345 55-23420
Fax: +49 (0) 345 55 27385
Email: ingo.pies@wiwi.uni-halle.de

Kurzfassung

Das ordonomische Forschungsprogramm wurde am Lehrstuhl für Wirtschaftsethik der Martin-Luther-Universität Halle-Wittenberg entwickelt. Zu den grundlegenden Einsichten der Ordonomik gehört, dass wirtschaftliche Akteure (Personen oder Organisationen) Moral als Produktionsfaktor einsetzen können und dass das akademische Feld der Business Ethics auf einem Rational-Choice-Ansatz aufbauen kann, der ganz auf der Traditionslinie ökonomischen Denkens liegt. Im Hinblick auf die Praxis offeriert die Ordonomik ein Konzept zur Generierung von Win-Win-Lösungen, mit denen Unternehmen sowohl wirtschaftlich als auch moralisch erfolgreich zu sein vermögen. Im Hinblick auf die Theoriebildung offeriert die Ordonomik einen Rahmen, innerhalb dessen Ethik und Ökonomik konzeptionell kompatibel gemacht werden können.

Schlüsselwörter: Ordonomik, Business Ethics, Corporate Social Responsibility, Corporate Citizenship, Rational Choice, Soziales Dilemma, Governance

JEL-Klassifizierung: A12, D02, D21, D23, D62, L14, L21, **M14**, P12, Y80

Abstract

"Ordonomics" is a research program that has been developed at the Chair of Economic Ethics at Martin Luther University Halle-Wittenberg. It holds that business actors (persons and organizations) can employ morality as a "factor of production", and that business ethics can be based on a specific rational-choice analysis that is fully in line with the established tradition of economic thinking. With regard to practice, the main point is that ordonomics offers a guiding concept for creating win-win solutions that help business firms to do well by doing good. With regard to theory, ordonomics offers a conceptual framework for business ethics that makes ethics and economics coherent and mutually compatible with each other.

Key Words: ordonomics, business ethics, corporate social responsibility, corporate citizenship, rational choice, social dilemma, governance

JEL Classification: A12, D02, D21, D23, D62, L14, L21, **M14**, P12, Y80

The Ordonomic Approach to Business Ethics

Ingo Pies*

"Ordonomics" is a research program that has been developed at the Chair of Economic Ethics at Martin Luther University Halle-Wittenberg, so naturally a lot of work has been published in German.[1] However, during the last years, an increasing number of contributions has been published in English, thanks to a close cooperation with a small number of young academics.[2] In this paper, I will try to sketch an ordonomic perspective on the field of business ethics, a perspective that aims to be both critical and constructive. It is critical because it points to several severe problems; and it is meant to be constructive because it outlines how these problems could be solved.

I. Background

To provide some background for my theoretical suggestions, I start with three short propositions:

1. Unlike most other new academic disciplines, business ethics has not been established in universities and business schools because of innovative research results but mainly due to the need—primarily felt by civil-society organizations and political actors—to address scandals in the business sector. The "career success" of the discipline, so far, rests not (yet) on internal factors, but mainly on external factors, i.e. political pressure. The prosperousness of business ethics has been a by-product of business regulation.[3]
2. As a consequence, most business firms, including their managers, do not feel a real drive for business ethics. Instead, they feel pressured to demand business ethics, similar to their demand for accounting and taxation, and quite contrary to their

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* Prof. Dr. Ingo Pies holds the Chair in Economic Ethics at Martin Luther University Halle-Wittenberg. The author wants to thank Gerhard Engel, Sebastian Everding, Stefan Hielscher, Karl Homann, Gerhard Minnameier, Julia Katharina Müller, Martina Pies, Michael Schramm, Anja Staemmler, Vladislav Valentinov, and Matthias Georg Will for inspiring discussions and valuable critical hints.

[1] Some book publications include Pies (2008) [How to Fight Corruption], Pies (2009a) [Morality as Heuristics], Pies (2009b) [Morality as a Production Factor], Pies (2012) [Rule Consensus instead of Value Consensus], Pies (2015) [Good Advice Need not be Expensive].

[2] Characteristic contributions include Pies, Hielscher, Beckmann (2009), Pies, Beckmann, Hielscher (2010), Pies, Beckmann, Hielscher (2011), Hielscher, Pies, Valentinov (2012), Valentinov, Hielscher, Pies (2013), Beckmann, Hielscher, Pies (2014), Pies, Beckmann, Hielscher (2014), Hielscher, Beckmann, Pies (2014), Pies, Will, Glauben, Prehn (2015), Beckmann, Pies (2016), Hielscher, Pies, Valentinov, Chatalova (2016), Valentinov, Pies, Hielscher (2016), Will, Pies (2016), Hielscher, Winkin, Crack, Pies (2017), Pies (2017). —For a general overview cf. Pies (2016).

[3] As a case in point, Boatright (1999; p. 587) aptly remarked that the "Federal Sentencing Guidelines" are "also known as the Ethics Consultant Full Employment Act." In a similar fashion, Simons (2013; p. 9) notes that many courses on Corporate Social Responsibility (CSR) etc. were introduced as a reaction to the Great Financial Crisis: "The popular press recounted tales of greed and portrayed business executives as exploiters of the public good. The academic literature pointed to the excesses of agency theory—a mainstay of MBA programs during the 1990s—and its glorification of self-interest as a contributing cause for the problems that followed … Business schools responded by redoubling their efforts to emphasize responsibility to a broader range of society's constituents. New courses on corporate accountability and business ethics were introduced in MBA programs across the country." In this context, it is important to keep in mind that, on the European continent, many universities introduced courses in business ethics only because they were forced to do so by international accreditation agencies.

demand for marketing, finance, or R&D. Usually, firms employ people with a background in business ethics in order to meet increasing reporting requirements (in CSR). To put it mildly, it is not (yet) generally expected that a background in business ethics contributes to better management or better organizations in the sense that the according academic programs would endow competencies for improved value creation.[4]

3. In academia, business ethics is often regarded as an alien element, especially in the environment of business schools with MBA programs. Many management scholars do not see how traditional approaches to business ethics might fit into their standard curricula. In many cases, they experience business ethics as a contradiction to established teaching contents and methods of analysis, something that does not improve but impede the endowment of future managers with the competencies necessary for their personal (and their organization's) competitive success.[5] Furthermore, many management scholars look down on research in business ethics as at best second-rate. Hence, it is no wonder that—at least in the German university system—so far not even the internationally most esteemed business ethics journals have reached the status of A-level.

These three propositions lead directly to two conclusions: If one wants business ethics to prosper and to be sustainably successful, one is under obligation to provide (a) evidence that business ethics can positively contribute to an improved performance of business firms, which explicitly includes improved profitability due to competitive advantage; and (b) evidence that—and more specifically how—business ethics resonates with the more than 200 years-old tradition of (refinements of) economic thinking. Put differently, the propositions suggest that the field of business ethics may suffer collateral damage (a) from theories claiming that moral reasons generally oblige firms to sacrifice profit as well as (b) from theories which posit themselves in sharp contradiction to the economic tradition of rational-choice analysis.

Against this background, I now want to show from an ordonomic perspective (a) that business firms can employ morality as a "factor of production", and (b) that business ethics can be based on a specific rational-choice analysis that is fully in line with the

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[4] Risi and Wickert (2016; pp. 2 f.) report empirical evidence that in multinational enterprises CSR managers tend to get "marginalized to the organizational periphery." More specifically, they find (p.30) that "although CSR managers do not become completely obsolete once CSR has been fully institutionalized, they tend to be reduced to more peripheral roles as administrators of CSR-related routines (e.g., to compile the annual sustainability report), while other professional groups take over the daily tasks of strategizing and executing CSR." As an explanation, they offer the idea that CSR managers aim at making themselves obsolete (p. 31). However, from an ordonomic point of view, an alternative explanation seems more likely. Maybe ordinary CSR officers lack managerial competencies, so that better managers take over as soon as CSR projects become important for a firm's strategy or core of business.

[5] One example may suffice to attest this general tendency of a cool or even hostile reception. Simons (2013; p. 9 and p. 31, emphasis in original) observes and complains: "Today, instead of competing to win—the original focus of business schools curriculums—the focus has shifted to balancing competing objectives in a way that is fair and equitable to the various stakeholders of a business." "Perhaps it‘s time to remind ourselves why business schools were created in the first place. *The business of business schools is teaching business.* And successful businesses require an overriding focus on the tough choices needed to prevail in competitive markets." Simons (2013; p. 31) formulates his radical repudiation as a rhetorical question: "Business school curriculums have increasingly downplayed the importance of competition in favor of extolling benevolence and virtue. But has the pendulum swung too far? With the constraint of limited attention, has the emphasis on balance, doing-well-by-doing-good, and the quest for enlightenment driven out the focus on competing—the »fire in the belly«—that is the hallmark of winning athletes, winning executives, and winning companies?"

established tradition of economic thinking. In other words: (a) With regard to practice, the main point I want to raise is that ordonomics offers a guiding concept for creating win-win solutions that help business firms to do well by doing good. (b) With regard to theory, I argue that ordonomics offers a conceptual framework for business ethics that makes ethics and economics coherent and mutually compatible with each other.

II. The Ordonomic Approach

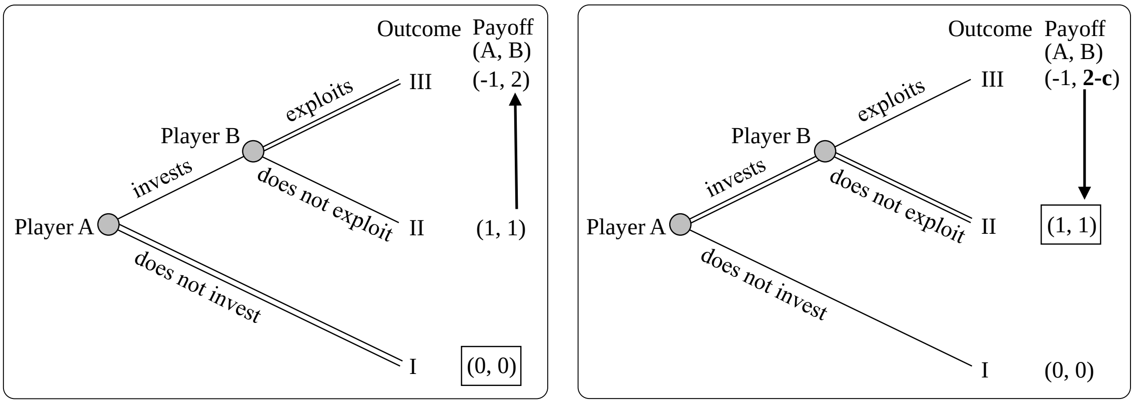
The core idea of the ordonomic approach is to translate moral conflicts into economic conflicts, and vice versa: Moral problems result from violations of legitimate interests. Violations of legitimate interests cause conflicts. Conflicts, however, leave room for mutual betterment through a kind of exchange. The institutional stabilization of such exchange thus solves an economic problem by creating a productive win-win arrangement, but at the same time it also solves a moral problem in overcoming the initial unresponsiveness to legitimate interests.

To further substantiate this core idea, the ordonomic approach employs models of social-dilemma situations. The defining criterion of such situations is a pareto-inferior equilibrium, i.e. a rational inefficiency. Using game-theoretic parlance, rational players (i.e. natural persons or organizations) who choose their best-response strategies end up in a situation they do not like because another strategy combination would yield better (or at least not worse) payoffs for all of them. Put differently, a social dilemma is a situation in which a win-win potential cannot be realized because actors are faced with institutional disincentives: The rules of the game prescribe inefficient moves within the game. This means that any social-dilemma situation includes an element of joint interest among the conflicting parties. This joint interest refers to a change in the rules such that a new game emerges, including a new equilibrium, that overcomes the initial inefficiency by reaping the win-win potential. As a consequence, the ordonomic approach is able to systematically abstain from any external source of normativity by concentrating on the conflict at hand and its internal—situation-specific—dimension of a joint interest in mutual betterment.

Given this core idea, the rest of this section offers a step-by-step introduction of the ordonomic approach. It starts with analyzing social dilemmas (steps 1-4), explains the ordonomic strategy matrix (step 5), elucidates the ordonomic concept of a convincing argument ("orthogonal position", step 6). Then it shows how a three-level scheme brings together the positive analysis of social dilemmas with a normative analysis of convincing arguments, thus focusing the ordonomic lens on learning processes, both within organizations and within societies (step 7). Finally, this section makes clear that the ordonomic approach rests on a diagnosis of modernity that has powerful implications for theorizing business ethics (step 8).

((1)) Figure 1 depicts the simplest of all social-dilemma situations, sometimes called "one-sided prisoners' dilemma" or "trust game" in the literature.[6] The left-hand graph shows the social dilemma that results in an inefficient equilibrium. The right-hand graph shows how this initial situation can be transformed via an institutional reform, leading to new moves in the game, and thus to a new equilibrium, in which everyone is better off.

[6] Kreps (1990) provides an early application of the one-sided prisoners' dilemma to the field of business ethics.



(a) Without Commitment (b) With Commitment

Figure 1: How a credible commitment can overcome the one-sided prisoners' dilemma Source: Own presentation, based on Pies, Hielscher, Beckmann (2009; Fig. 2, p. 383).

In Figure 1a, we can distinguish two players. Player A first chooses whether to invest in a relationship with player B, and then player B chooses whether to meet the legitimate expectations of A. In fact, this means that B can exploit A by not honoring A's trust in B. Let us assume ordinal payoffs. If we assign zero payoff to outcome I for both parties, it is easy to understand that outcome II would be better for A (payoff 1), while outcome III would be worse (payoff -1). For B, however, outcome II would be better (payoff 1), while outcome III would be still better (payoff 2). This is symbolized by the upward-pointing arrow. Here, the worst outcome for A corresponds with the best outcome for B.

Solving the game via backward induction, we see that B has a dominant strategy. For B it pays off to disappoint A's legitimate expectations. Graphically, this is represented by the double line. Given this rational choice by B, the space of relevant outcomes for A is reduced from three to two options. Outcome II is no longer relevant for A. This means that in fact A has to choose between being exploited (outcome I with payoff -1) and not to invest trust in the relationship with B (outcome III with payoff 0). Thus, also A has a dominant strategy, graphically represented by the double line. The resulting equilibrium is marked with a rectangle. Both players realize zero payoffs. This equilibrium is inefficient (and morally undesirable) if compared with outcome II. Both players forgo the mutual betterment that would have been possible with payoff pair (1,1).

Figure 1b shows what is needed to overcome this social dilemma. If a commitment device reduces the payoff for B such that exploitation becomes unattractive, the whole game changes. If due to the reduced payoff (2-c) B now has a dominant strategy to honor A's trust—symbolized by the downward-pointing arrow—A is provided with a dominant strategy to invest in the relationship with B. This results in the new equilibrium (outcome II with payoffs 1,1).

((2)) From an ordonomic perspective with its focus on yet unrealized win-win solutions, this simple model of a social dilemma can be used as a spotlight lamp to shed light upon potentially problematic relationships of a business firm, both internal and external. Table 1 provides a non-exhaustive overview of possible applications by sketching four paradigmatic examples.

- Example 1: Any organization suffers from inefficiencies if team leaders frustrate their team members, e.g. by discouraging criticism or by declaring the team's suggestions for improvement as their own when reporting back to their supervisors.

Prudent managers commit themselves not to do that, but prudent organizations help their managers to commit themselves, e.g. by introducing an appropriate feedback loop. A tried and tested instrument to do so is a 360-degree feedback routine, which helps team members to easily report any misbehavior by their team leader. From an ordonomic point of view, it is important to note that many governance mechanisms that are employed within a business firm serve the joint interests of both team members and team leaders (and the firm), since all can benefit from preventing rational inefficiencies (via higher wages, bonuses and profits).

- Example 2: If an entrepreneur serves a client, he has a vital self-interest to behave in a client-friendly mode. An employed person however may lack this interest, to the detriment of the organization she is working for. To provide her with such an interest, a prudent organization will install appropriate governance structures. It may implement a formal complaint-handling mechanism or it may pair the employee’s wage with empirical metrics of client satisfaction. Again, the crucial point here is that it is in the joint interest of clients, employees and firms that the potential conflict between client and employee is effectively solved because otherwise it would induce the client to choose the exit strategy and avoid engaging in the relationship with the organization’s employee in the first place.

No.	Player A	Player B	Commitment Device For Productive Conflict Solution
1	team member	team leader	trust relation in teams via 360° feedback
2	customer	employee	customer friendliness via formal complaint mechanism
3	firm	employee	functional organization via code of conduct (as commitment service)
4	any stakeholder (group)	firm	integrity of organization and responsible business conduct

Table 1: Four paradigmatic examples
Source: Own research.

- Example 3: The business firm is interested in reducing potential misbehavior of its employees. To do so, it can employ a large spectrum of governance mechanisms, including the formal instrument of labor contracts, codes of conduct, and the highly informal arrangements of corporate culture. In a code of conduct, for example, the firm may specify that it expects employees to communicate relevant information, even if this means bad news. In likewise fashion, a corporate culture might encourage open discussion and a critical examination of traditional routines. Prudent organizations are interested in setting up early warning systems. As a case in point, they might implement an anonymous whistle-blowing mechanism so as to no employee needs to conceal grievances for fear of mobbing. By installing such governance structures, firms can communicate and incentivize the behavioral norm that organizational loyalty should trump personal loyalty to team members or team leaders.
- Example 4: By solving such interaction problems, a business firm constitutes itself as a corporate actor. Its constitution enables the firm to behave as a rational player.

This includes the dual capability of making credible promises to its stakeholders, and of assuming responsibility for keeping these promises. Warranties are a case in point. Indeed, it is a modern phenomenon that not only natural persons but also organizations are ascribed the social role of taking responsibility. In order to guarantee a responsible business conduct, a firm must incentivize the natural persons who act on its behalf such that the organization's integrity is unquestionable. Its internal governance structures are meant to create external trust, so that banks become willing to provide loans, suppliers become willing to enter long-term contracts, customers become willing to spend their money on the firm's products, and employees become willing to invest a considerable part of their human capital (and life time) into the firm.

((3)) The one-sided prisoners' dilemma is a pet model of the ordonomic research program—one of two pet models actually, more on which later. It combines analytical simplicity with deep moral insights. Four points are worth mentioning.

- The strong asymmetry between a potential exploiter and the exploited may misguide our common-sense reasoning. Contrary to intuition, the seemingly powerful can turn out to be quite powerless, such that power translates into competitive disadvantage: If (potential) victims anticipate being victimized, they try to get out of the way of their victimizers. Especially in market contexts which provide actors with exit options, exploiters will experience difficulty in victimizing their partners. This is a point well taken by Gordon Tullock (1985; p. 1081): "Where the market is broad and there are many alternatives, you had better cooperate. If you choose the noncooperative solution, you may find you have no one to noncooperate with." Seen from this perspective, the world is full of relationships that do not come into being in the first place—due to a lack of trust.
- Contrary to intuition, both actors have a common interest in establishing a successful relationship. This is why the term "social" dilemma is really appropriate here. Both actors suffer from the rational inefficiency of missing the win-win potential. The parties involved in this game face a joint problem and hence have a joint interest in a productive solution.
- Contrary to intuition, the potential exploiter acts prudently in his very self-interest if he reduces his own degree of freedom via a credible commitment not to exploit. Such a commitment is not a sacrifice. Rather, it is an investment that induces his interaction partner to enter a mutually beneficial relationship that would not come into being without trust. Hence, both actors benefit because one of them credibly limits his options.
- Here, the moral problem of disappointing a legitimate expectation, of dishonoring trust, of exploiting a partner, has an innate economic dimension—and vice versa. The economic problem of creating and stabilizing a mutually beneficial relationship has an innate moral dimension. This means that the governance mechanism of a credible commitment solves—uno actu—both a moral and an economic problem. Here we have two sides of the same coin: Honoring trust is rewarded. And acting in one's self-interest also promotes the partner's interest. This is a paradigmatic example of doing well by doing good.

((4)) The second pet model of the ordonomic research program is the many-sided prisoners' dilemma, which I assume to be generally known, both in its one-shot versions with two players or numerous players. However, it is worth mentioning that while these two pet models show some considerable differences, they also share some common characteristics.

- Let me begin with an important difference. The trust game is called a one-sided prisoners' dilemma because player B can potentially exploit player A, not vice versa. In contrast to this asymmetry, all players can potentially exploit each other in the better-known many-sided prisoners' dilemma.
- The similarities between the two models are manifold. (a) The equilibrium is rationally inefficient, i.e. pareto-inferior. (b) This constitutes a joint interest among all involved players to improve the result. (c) However, it is not possible to reap the win-win potential within the given game, since all involved parties have already chosen their best-response strategies. (d) Mutual betterment can only be realized by changing the rules of the initial game: the payoffs, hence the incentive structure and the according equilibrium. The solution is not to play the given game better, but to play a better game.
- A crucial difference between the models results from the fact that in the one-sided prisoners' dilemma an individual commitment by player B is sufficient for improving the pareto-inferior solution, while in the many-sided prisoners' dilemma all players need to respond to new incentives simultaneously. This simultaneousness results from the symmetry of potential exploitation in the many-sided prisoners' dilemma. It requires a collective commitment.
- In general, the one-sided prisoners' dilemma is best applied in contexts of cooperative relationships with explicit or implicit contracts. The many-sided prisoners' dilemma, in contrast, serves most useful in contexts of competition, both within and among firms.
- Furthermore, for both games it is more likely that negative sanctions instead of positive sanctions are employed to make the commitment credible. The underlying reason is that if the governance structure is successful in influencing the expectations of all relevant players, the threat to punish involved with negative sanctions need not be carried out, while utilizing a positive sanction means that the desired behavior needs to be rewarded, which usually requires money to be put on the table. In this sense, negative sanctions are often cheaper than positive sanctions.

((5)) Combining the two pet models yields the ordonomic strategy matrix for business ethics (Figure 2). Let me quickly comment on each of the four boxes.

- Box I: A typical example of a service for collective commitments is firms providing incentives to prevent free-riding behavior in teams. Without proper incentives, team production amounts to the private provision of public goods. Managers help their team—and business firms help their managers—to provide team members with the appropriate governance structures to avoid rational inefficiencies. In likewise fashion, firms can manage their value chains by helping suppliers to overcome social dilemmas. A many-sided social dilemma typically results if the firm's clients and hence the firm demand higher standards from its suppliers (or from the suppliers of their suppliers further down the chain), e.g. with regard to product quality, environmental protection or social norms concerning human rights or child labor. In such cases, competition among suppliers might undermine the higher standard. The solution is co-opetition (Dixit, Nalebuff 1991). And the firm might actively help its suppliers to establish a collective arrangement that allows them to cooperate with respect to the standard and to continue competing with regard to all other aspects of business performance.

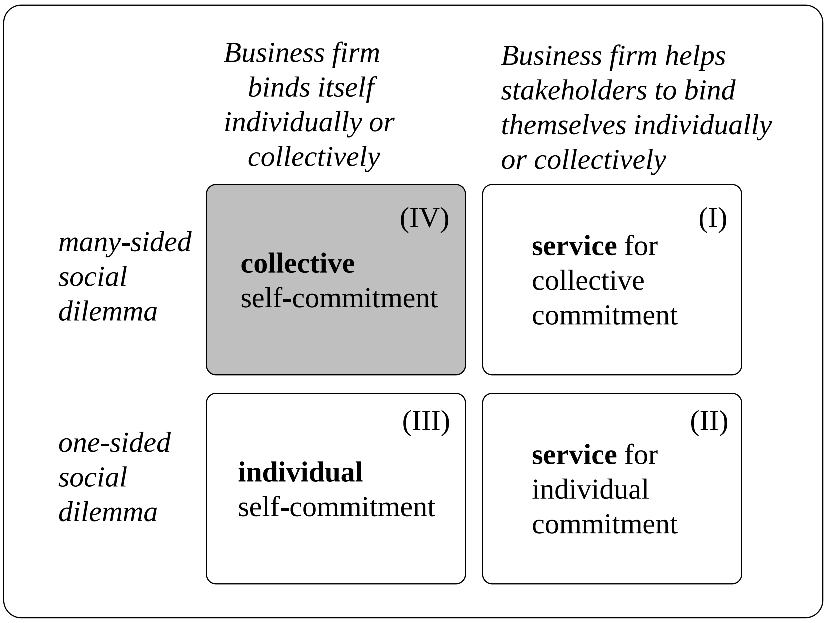


Figure 2: The ordonomic strategy matrix
Source: Own presentation, based on Pies, Hielscher, Beckmann (2009; Fig. 5, p. 389).

- Box II: Labor contracts as well as codes of conduct are important instruments provided by firms that help their employees to individually bind themselves. But the same logic also holds in external relations. Before the firm becomes vulnerable due to a specific investment in a supplier, it might help the supplying person or organization to bind itself: to set up a governance structure—similar to the "hostage model" by Oliver Williamson (1985; pp. 169-175) —so that a basis of trust is created because now the supplier faces considerable cost if it jeopardizes the relationship.
- Box III: Besides helping others to bind themselves, a business firm can bind itself, too. In addition to legal instruments such as the "constitution" that creates the organization in the first place or contracts which help the firm to create business relationships, the reputation mechanism is an important informal governance instrument for individual self-commitments. Warranties provide another example. Such commitments are of vital importance in all stakeholder relationships. Without them, the business firm would not be recognized (and esteemed) as an independent actor with its own interest and its own sphere of responsibility.
- Box IV: A business firm can solve many problems on its own: by providing commitment services to its stakeholders, especially to its employees and suppliers; or via self-commitments that make it costly for the firm to misbehave, e.g. by disappointing legitimate expectations. But there are also problems a business firm cannot solve on its own because a viable solution requires getting its competitors on board. This is why box IV has a grey background colour. Here, individual self-commitments are not sufficient to obtain an improved result. What is required is a *collective* commitment that involves not only the business firm but also all other business firms competing in the same sector with which it experiences strategic interdependence. This problem usually occurs when business activities switch

> from providing private to providing public goods. A case in point is an industry branch that wants to implement a higher standard than is legally required—a standard that may be morally desired from a societal point of view. If customers show no willingness to pay for the higher standard on a voluntary basis, competition among firms will make it difficult to cover the additional cost. Thus, the higher standard will exhibit the character of a public good. In such a situation, the sector may want to establish a collective standard on a voluntary basis ("soft law"), or it may want to call on the political process for support to introduce higher legal standards. This is the sphere of "industry self-regulation" or business cooperation in regulation, often called "political CSR", "Corporate Citizenship", "Responsible Lobbying" etc.[7]

Some further comments may be helpful in getting a better grasp of the analytical power of the ordonomic strategy matrix.

First, the matrix is systematic and exhaustive in the sense that for any business case supporting CSR, i.e. for any case where moral behavior leads to mutual betterment, it must be possible to assign this case to one of the four boxes. The underlying reason is that realizing a win-win potential requires an inefficient equilibrium to start with and a governance initiative to change the equilibrium via improved incentives. The two pet models paradigmatically cover all logically possible commitment devices by distinguishing between individual and collective commitments, and the matrix enlarges the commitment arena from self-commitments to all possible commitment services, comprising any stakeholder relations.

Second, the matrix can be combined with other process criteria. For example, as Beckmann, Hielscher and Pies (2014) show, it is possible to re-write the four boxes as four rows in a table and to combine them with the three ESG criteria of sustainability—ecological, social and governance aspects—to yield a twelve-box matrix, which can serve as a powerful checklist for a systematic analysis of the strengths and weaknesses of a business firm's sustainability performance. Alternatively, combining the four ordonomic criteria with the four phases of the innovation process according to the familiar stage gate model—idea, concept, development, launch—yields a sixteen-box matrix for the strategic management of creating new products (Hielscher and Vennemann 2013).

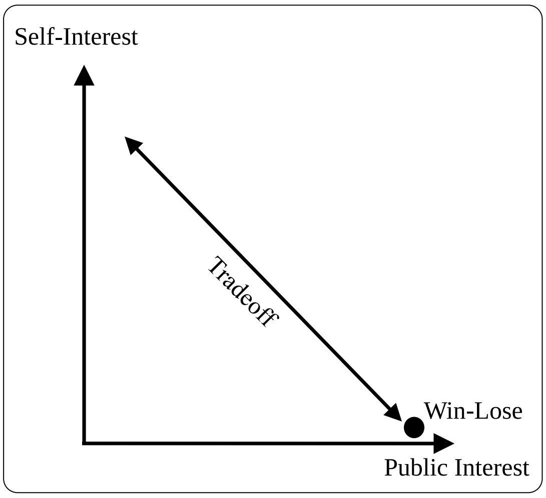
Third, it is important to note that the whole perspective can also be turned upside down. So far, my emphasis has been on encouraging morally approved outcomes via overcoming social dilemmas. But it might also be appropriate to ask how immoral behavior could be destabilized, and in this sense a morally approved outcome might require to establish and maintain social dilemmas. Corruption, nepotism, rent-seeking are cases in point. This means that there are kinds of cooperative behavior a business firm wants to undermine, either by managing trust and distrust or by managing competitive pressure among stakeholders. A simple measure in this regard is the four-eye-principle of dual control, which makes it more difficult to corrupt managers. Put differently, a business firm is not interested in generally minimizing transaction costs but in a differentiated

[7] Already Adam Smith (1776, 1981; p. 154) famously noted: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices." The threat of political collusion is the reason why public scrutiny—and the involvement of critical watch-dogs—is required to ensure that collective commitments by an industry branch do not result in cartel arrangements. This simply means that we are in need of institutional second-order politics for societal learning processes: The political task is to create an enabling environment that improves the governance structures for improving governance structures.

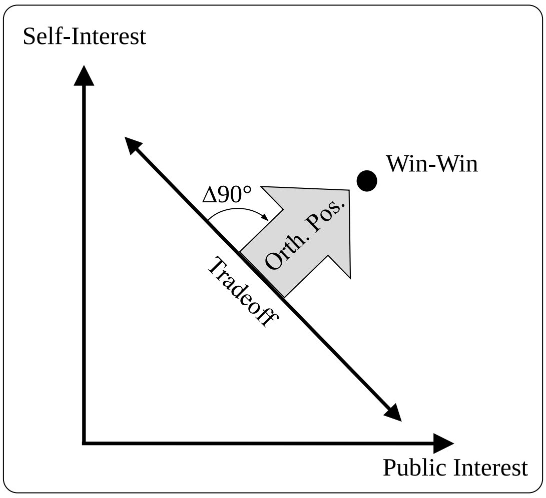
management of transaction costs; it is interested in low(er) transaction costs for stabilizing productive interactions and at the same time in high(er) transaction costs for destabilizing unproductive interactions. The ordonomic strategy matrix can be analytically helpful in both respects.[8]

((6)) Based on the ordonomic strategy matrix and its underlying rational-choice analysis of social-dilemma situations, one can systematically address the field of semantics, which is so central to business ethics and, often, neglected in economic research. When referring to "semantics" I mean the terms and thought categories of public discussion. Let me concentrate on one important point here.

Common-sense perceptions of moral problems in business contexts tend to assume a zero-sum nature of conflict. In a modern society, however, nothing could be further from the truth. The games we usually play in business are not zero-sum, but mixed-motive in character (Schelling 1960, 1980; pp. 88 f.). Cooperation is antagonistic, and conflicts always contain an element of harmony and joint interest due to mutual dependence. Fig. 3 helps to grasp the ordonomic contribution to semantics.



(a) Tradeoff Perception



(b) Orthogonal Position Transcending the Tradeoff

Figure 3: Tradeoff and orthogonal position
Source: Own presentation, based on Pies, Hielscher, Beckmann (2009; Fig. 1, p. 80).

On the left side, we see a negatively sloped line. It graphically represents a tradeoff between self-interest and public interest. The underlying paradigm is a zero-sum perception of conflict. Within this framework of perception, people have a natural tendency to equate morality with the public interest and then call on self-interested business actors to sacrifice (part of) their profit for the common good. Their moral claims—which appeal to a win-lose solution—are graphically represented by the arrow pointing to the lower right. Beyond the zero-sum fallacy, two more fallacies are involved here.

[8] This important point—analyzed at length by Pies (1993)—is seldomly noticed in the business ethics literature. A notable exception is Heath (2014; p. 33), who explicitly acknowledges that price competition among firms is a morally desired many-sided prisoners' dilemma. Interestingly, he also seems to be one the few Anglo-Saxon authors who have been influenced by the German tradition of business ethics ("Wirtschaftsethik"). Cf. Heath (2014; p. 6). For an ordonomic analysis of organizational change management that explicitly considers both the creation and maintenance as well as the overcoming and avoidance of social dilemmas cf. Will (2015).

First, the status quo of a moral grievance, i.e. mass unemployment, environmental degradation, corruption, etc., is interpreted as a result of action, while in fact it is the result of (dilemmatic) interaction. To use a term coined by Hayek (1973; p. 73), this intellectual mistake can be called "intentionalist fallacy." It relates moral ills to the preferences of business actors, especially to their profit motive. This is a fallacy because in social-dilemma situations there are no revealed preferences. It is not the preferences but the constraints that drive the outcome, as can be easily seen when the rules of the game are reformed and a new equilibrium is reached without changing preferences.

Second, claiming that actors, persons or organizations, should sacrifice themselves for moral reasons results from a lack of respect for these actors and their dignity as moral subjects. One could call this a "moralistic fallacy." The intellectual error underlying this fallacy is to overlook that the actor's self-interest should be regarded as an integral part of public interest.

Against this background, the ordonomic approach suggests a change in perspective. Instead of claiming that self-interested actors should harm themselves for the common good, it redirects attention from the moves within a given game to changing the rules for creating a better game. In Fig. 3b, I call this change in perspective an "orthogonal position" (Pies 2000; p. 34) since it involves a redirection of thought by 90°, graphically represented by the arrow pointing to the upper right. According to the ordonomic perspective, the moral point of view is not represented along the win-lose dimension of the tradeoff but along the win-win dimension of the orthogonal position. Put differently, the ordonomic concept of an "orthogonal position" directs business ethics towards formulating convincing moral arguments.

((7)) The ordonomic three-level scheme combines the ordonomic rational-choice analysis of social dilemmas with the ordonomic analysis of semantics to focus on learning processes in organizations as well as in society (Fig. 4). Two examples should suffice to clarify the approach, which assumes a dilemmatic basic game on level 1, a game of political negotiation on level 2, and a game of discourse on level 3.

(a) Assume a one-sided prisoners' dilemma between team members and their team leader (example 1 in Table 1). Assume further that the firm wants to introduce a 360-degree feedback mechanism, but that this reform proposal meets resistance by the person who is responsible for leading the team because she regards it as both an infringement of her rights and as a signal of distrust towards her. This situation translates as follows into the logic of Fig. 4. In the basic game on level 1 we have a social-dilemma situation. There is a proposal to overcome this dilemma in the meta game on level 2. But this reform proposal is blocked due to a tradeoff perception in the meta-meta game on level 3. Given this situation, the firm's major task is to start on level 3. The top management needs to provide goods arguments in favor of its proposal to convince junior management to carry it out. Here, semantics matter! Intuitively, a team leader may fear a reduction of her degree of freedom to turn out detrimental to her self-interest, and she might even feel morally justified to fiercely oppose what seems to her an attempt by management to improve firm profit at her personal cost. In such a situation, an argument that qualifies as an orthogonal position may help the team leader to transcend her tradeoff perception. The top management's task is to convince her that the proposed governance mechanism serves her very own interest. In this respect, it is extremely valuable that the rational-choice analysis of social-dilemma situation can deliver counter-intuitive insights. Once an orthogonal position is accomplished, the initial blockade in negotiations on level 2 can be overcome, so that the basic game on level 1 receives a new governance structure, which enables the players of the new basic game to realize an improved equilibrium.

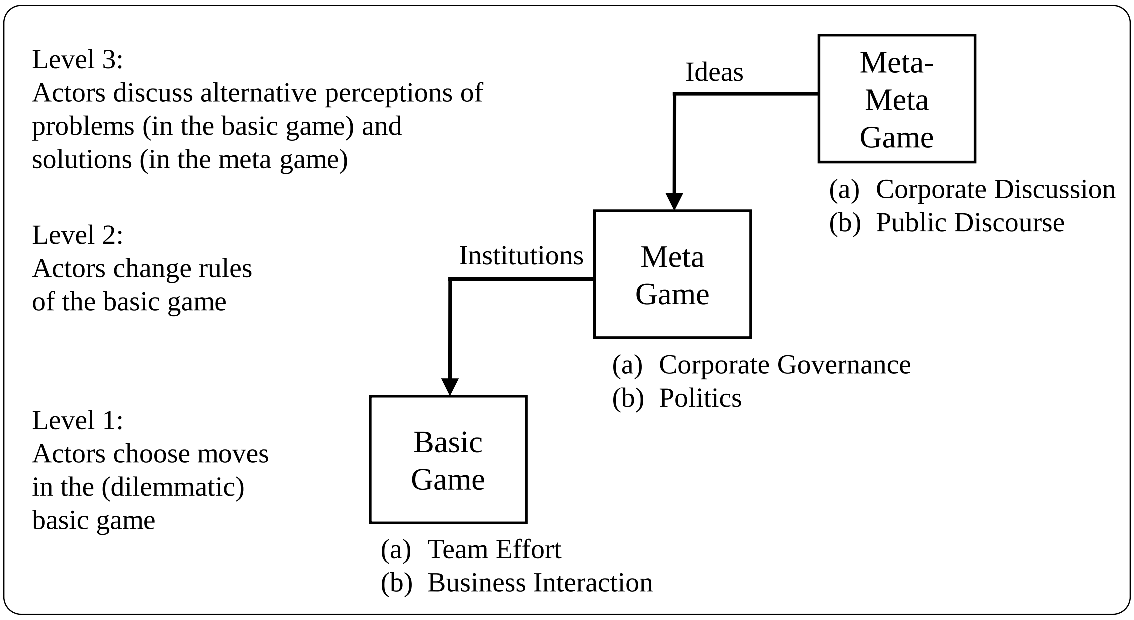


Figure 4: The ordonomic three-level scheme
Source: Own presentation, based on Pies, Hielscher, Beckmann (2009; Fig. 4, p. 386).

(b) The second example of climate change policies refers to the societal or even global level. Although in orders of magnitude more complex than the earlier organizational example, emitting greenhouse gases is a many-sided prisoners' dilemma on the international scale. Despite enormous efforts, and although some progress has been made during the last twenty-five years, political negotiations have not (yet) reached the decisive breakthrough. Part of the problem is that many people do not seem to understand that pricing greenhouse gas emissions, either by a carbon tax or a cap-and-trade system, is by far the best option for a global climate policy regime. Pope Francis (2015; para 171) is a case in point when he argues against market-based approaches to price carbon dioxide: "The strategy of buying and selling »carbon credits« can lead to a new form of speculation which would not help reduce the emission of polluting gases worldwide. This system seems to provide a quick and easy solution under the guise of a certain commitment to the environment, but in no way does it allow for the radical change which present circumstances require." Pope Francis was clearly ill-advised. From an ordonomic point of view, it seems to be a task of business ethics to enlighten the debate and to transcend the often-assumed tradeoff between business and environment via an orthogonal position.[9] Without convincing the public to use the most efficient instrument for reducing greenhouse gases, there is little hope that more costly instruments can meet general agreement and that international negotiations on level 2 will result in improved governance structures on level 1. The discourse game on level 3 is thus crucial for implementing effective climate policy.

[9] Interestingly, a famous economist took up the task, while most business ethicists kept silent. Cf. Nordhaus (2015). —Maybe this is the right place for a general observation: Judged from an ordonomic perspective, the literature—especially the Anglo-Saxon literature—on business ethics is preoccupied with business actors and their behavior, not with the business system and the legitimacy of market competition. An interesting exception to this rule is provided by Heath (2009) and (2014).

((8)) The core elements of the ordonomic research program— (a) a rational-choice analysis of social dilemma situations and (b) an orthogonal position to normative tradeoff thinking, both brought together in (c) a three-level scheme for analyzing learning processes—are augmented with a fourth element, (d) a diagnosis of modernity that helps to organize and further develop the ordonomic approach in a constructive and coherent way. Fig. 5 sketches the main ideas in three steps.

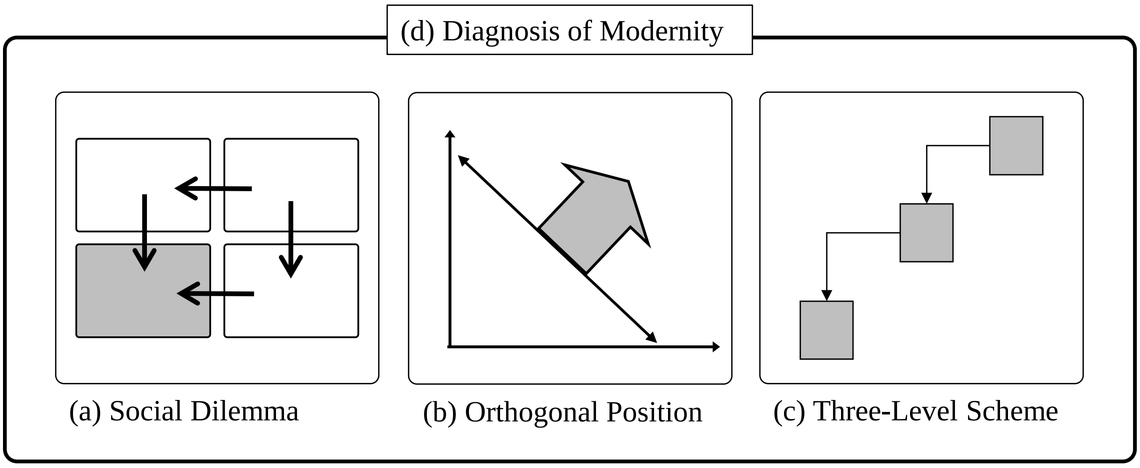


Figure 5: Four elements of the ordonomic research program
Source: Own presentation, based on Pies (2009a; Fig. E-1, p.3).

First, the ordonomic diagnosis of modernity starts with the empirical observation that a sustainable rise in per-capita income is a relevant recent development in the history of humankind (Fig. 6). This development indicates that there is indeed, as the ordonomic approach assumes, not only a theoretical possibility but also an empirical reality that there are many positive-sum games with win-win potentials to be played. To put it in a nutshell: *Modern society rests on a growth economy.*[10]

Second, given the fact that rising living standards are a relatively new historic phenomenon, it is important to note that most normative terms and concepts—like freedom, equality and justice—are much older and have their (often even antique) roots in the social structure of non-growth societies. Most normative concepts are static in nature and refer directly to results, not to dynamic processes. To put it in a nutshell: *It is a sign of modernity that there is a conceptual gap between social structure and semantics.* This insight has an important implication: It means that normativity is not a one-way street in the sense that social structure must be adjusted to moral criteria. Instead, ordonomics conceptualizes normativity as a two-way street in the sense that it is a viable option also to adjust moral semantics to the social structure of modern society. The notion of “sustainability”, a truly modern term, is a case in point.

[10] Growth in per capita income means that people live wealthier and healthier, that they benefit from both the material as well as the immaterial advantages (products and liberties) of modern civilization. For a general overview of the development of global well-being since 1820 cf. van Zanden et al. (2014). Deaton (2013) calls this development a “great escape” from hunger and poverty, while Clark (2007) regards this “farewell to alms” as a break-out from the Malthusian trap. The rise in per-capita income—and its moral prerequisites and implications—is at the center of the trilogy by McCloskey (2006), (2010) and (2016). Special emphasis deserve a few websites that provide a vivid graphical impression of the modern growth record and its numerous dimensions. Cf. e.g. http://www.gapminder.org/tools/#_locale_id=en;&chart-type=bubbles as well as https://ourworldindata.org/.

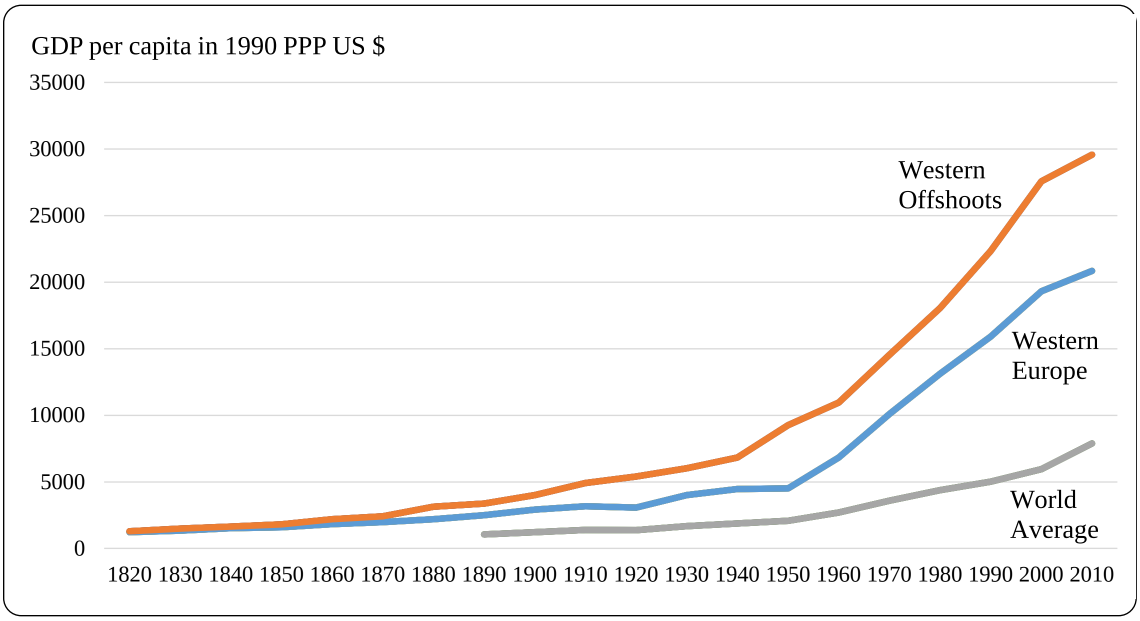


Figure 6: The modern growth performance in per-capita income
Source: Own graph with data from van Zanden et al. (2014; Table 3.2, p. 65).[11]

Third, the prime source of modern growth is innovation, i.e. the generation and use of new knowledge for creating value. The main engine of innovation is the modern business firm with its enhanced capability of risk-taking, since capital markets allow to slice capital shares for diversification. As Walter Lippmann (1929, 2009; p. 235) aptly remarked, it is "the invention of invention," or in terms coined by Joseph Schumpeter (1942, 2008; p. 81), it is the "process of creative destruction," the permanent entrepreneurial revolution of production routines that marks the modern growth era. Hence, due to the impressive growth performance of the modern business firm, capitalism can be interpreted with Baumol (2002) as a "free-market innovation machine". We live healthier and wealthier lives than our ancestors because firms have invented new drugs and highly effective medical treatments like vaccination, reliable food processing technologies, safe products, improved working conditions, faster transportation, etc. To put it in a nutshell: *The modern business firm has a societal mandate to solve problems via innovative value creation.* Here, value creation means that uno actu both added economic value as well as added moral value is created. Respect for, and response to, personal need on the one hand and mutual advantage for exchange partners in markets on the other hand are two sides of the same coin.

III. Implications for the academic field of business ethics

Since the ordonomic research program offers a conceptual framework for theorizing, the implications for business ethics are manifold. However, due to space limitations, I confine myself to three points that I hope to be of general interest.

((1)) Seen from an ordonomic perspective, the modern business firm has two systemic functions, a static and a dynamic one. It is a deliberate (and prudent) societal decision to

[11] The category "Western Europe" comprises Great Britain, The Netherlands, France, Germany, Italy, Spain, and Sweden, while "Western Offshoots" comprises Australia, Canada, and USA.

set the firm under competitive market pressure. As a consequence, the firm faces the permanent threat of a potential death sentence for not being successful enough to avoid bankruptcy. In this way, competitive pressure incentivizes firms (a) to deliver products and services cost-efficiently and (b) to excel competitors by invention and innovation.

Against this background, what is the proper role of Corporate Social Responsibility, and more generally of business ethics? Is it to claim that business firms should choose different moves in the games they play? Should they ignore competitive pressure whenever this system imperative leads to morally undesired results? Should firms practice internal democracy? Should they not dogmatically adhere to—and a fortiori not stubbornly insist on—profit orientation? Should they spend part of their resources for producing public goods? Should firms sacrifice their fiduciary duties for other stakeholder groups to achieve a fair(er) balance of interests, at least partly? Should they feel morally obliged to donate a certain percentage of their profit for philanthropy instead of paying out the full dividend, as Gesang (2016) has recently claimed in Germany?

The ordonomic approach proposes a different answer, which implies a precise (re-)definition of Corporate Social Responsibility and a strong shift in emphasis towards what I call "Corporate Citizenship". The crucial question is as to how a firm should react when faced with competitive pressure that dis-incentivizes business contributions to morally approved outcomes, a ubiquitous phenomenon in cases of market failure that lead to negative externalities in social or environmental dimensions. Here, the ordonomic answer is straightforward. Business firms are societal mandatees that face a moral obligation to address such problems by attempting to improve the current governance deficiency (a) either by individual governance innovation or (b) by collective governance innovation. Option (a) covers boxes I, II, and III of the ordonomic strategy matrix (Fig. 2), while option (b) covers box IV. In short, ordonomics prompts business ethics to help managers and their organizations to better serve the two systemic functions of business firms. To this end, firms can use credible commitments and, by doing so, employ morality as a factor of production.

Option (a) leads to a precise (re-)definition of Corporate Social Responsibility. Instead of claiming that a firm should feel obliged to re-balance the relation between stakeholders and stockholders, i.e. by giving more weight to the former and less weight to the latter, the ordonomic approach holds that a firm should avoid such win-lose activities. Instead, CSR should concentrate on win-win improvements, which immediately re-directs CSR from choosing different moves within a given game towards discussing and negotiating new rules for an improved game. Thus, ordonomics fosters a governance interpretation of CSR that shifts attention from action to structure (for inter-action). Put differently, the ordonomic concept of Corporate Social Responsibility recommends that firms which find themselves in a social dilemma should use the relevant meta and meta-meta games to (re-)form the basic game.

Option (b) raises awareness for the undeniable fact that there are some governance problems a business firm cannot solve by itself, in particular in situations of market failure. In addition to self-commitments and commitment services for stakeholders, initiatives that might be called "private ordering," there are cases in which it is necessary to organize "public ordering," either by industry self-regulation or by lobbying for a better government regulation and other political authorities. Since many exchanges take place across borders in globalized markets, there has been a tremendous increase in bi-sectoral or tri-sectoral "new governance" initiatives, in which business firms assume a political role as "corporate citizens" in cooperation with state actors and/or civil-society organizations to improve the very rules that define the business games they play (Pies and Koslowski 2011).

((2)) Although negative externalities are important, the almost excessive focus on negative business externalities, and hence the nearly total neglect of positive business externalities, has led to a problematic bias within the whole academic field of business ethics. The literature is obsessed with corporate scandals, business misconduct and moral grievances that almost entirely result from market failures. By doing so, the academic literature merely reflects the "negative bias" of media coverage. What is almost completely missing from academic discussions is a substantiated account of the vitally important role positive externalities play for the historic success of market economies. In other words: Large parts of the mainstream literature on business ethics are a poor guide for understanding the systemic working properties of a market economy and their moral implications.

Let me substantiate this claim: Just remember that it is the business firms which create value and thus drive the growth process of modern society. But due to competition they are forced to dissipate an overwhelming part of their innovation rent, primarily on behalf of their customers and employees. This is why modern societies have experienced a sharp historical rise in general living standards, not only for capitalists but for the average citizen. This insight is brilliantly formulated by William Baumol (2010; p. 7 f.): "Static externalities can threaten enormous damage to the general welfare, as in the case of global warming. Still, where else are externalities more enormous than in the case of the huge spillovers from innovation? … [U]nlike other [negative] externalities that invariably result in welfare-damaging market failure, the [positive] externalities of innovation have made an enormously beneficial distributive contribution to the general welfare … —most notably in its contribution to the reduction of poverty."[12]

Let me further elaborate on this insight, especially on the moral implications of this working property of competitive markets, since it is often poorly understood or even totally ignored, not only in public discussion but also in considerable parts of the academic literature: Marx and Engels described and denounced capitalism as a system of "exploitation." They thought that only labor creates value and that capitalists expropriate laborers. The reason was that they assumed a limitless reserve army of unemployed workers to reduce the wage to its minimum subsistence level. However, the argument that capitalists privatize the value added of laborers faces two problems. The argument is theoretically flawed because it gets the sources of value creation wrong; and it is empirically wrong as it neglects the strong and nearly continuous rise in wages that was already long underway when Marx and Engels wrote the "Communist Manifesto" in 1848 (Fig. 7).

However, if we maintain the Marxist notion of "exploitation" for a moment, it might be a thought-provoking and eye-opening contribution to formulate the following extremely counter-intuitive proposition that may help some people to question and ultimately change their (maybe unknowingly) Marxist and hence hostile attitude towards a competitive market system: For all those who want to characterize capitalism as a system of exploitation, it is important to understand that it is the capitalists and not the laborers who are exploited. If "exploitation" means that competitive pressure forces you to hand

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[12] It is worth mentioning that Baumol is not only a leading economist, but also an early classic of Corporate Social Responsibility and Corporate Citizenship. Cf. Baumol (1974, 1975) and (1991). This, however, has so far been largely ignored in the literature on business ethics. In likewise fashion, and similarly astonishing, the early and profound contribution on economic responsibility—i.e. CSR—by the eminent economist John Maurice Clark (1916) has received little attention among contemporary researchers. Cf. Pies (2017).

over your innovation rent to a contract partner, it is clear that the business firm organizes innovation and that the overwhelming part of the innovation rent is not privatized by capitalists as profit but spills over to employees, who benefit from higher wages, and to customers, who benefit from lower prices. In this sense, capitalism can be characterized as a system of "beneficial exploitation," promoting the common good. And the driver of this process is institutionalized competition, which in effect attenuates the capitalists' property rights for the residual gain resulting from their business firms' value creating activities. To put it pointedly: *Market competition collectivizes the private innovation rent earned by successful business firms.* Absent innovation, strong competition correlates with low profit. This means that the empirical observation of abnormally high profit over a longer time-span hints at a market failure in the sense that there might be some (reformable?) circumstance that hinders the market from being contestable.

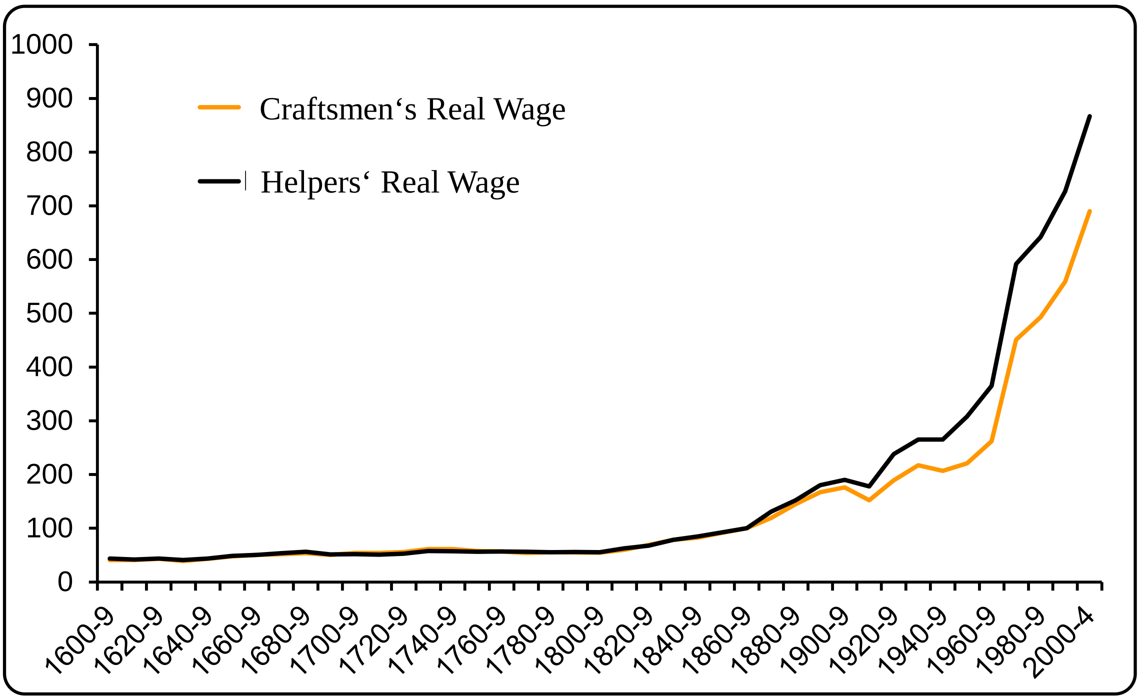

Figure 7: Real Wages in England, 1600-2004 (Index 1860-9 = 100)
Source: Own graph with data from Clark (2005; Table A", pp. 1324 ff.)

((3)) The ordonomic research program offers intellectual orientation, especially with regard to theorizing business ethics, as the following points elucidate:

- The ordonomic research program suggests distinguishing two different perspectives on corporate profit. The organizational perspective takes the point of view of the business firm and regards profit as a goal. In contrast, the systems perspective takes the point of view of society and regards firm profit as a means by which it can influence and even (re-)direct the behavior of business firms. It is this second perspective that legitimizes profit in a market democracy.
- In a similar fashion, we can distinguish two different perspectives on competition. The organizational perspective takes the point of view of the business firm and regards cooperation as a means to accomplish competitive success. In contrast, the systems perspective takes the point of view of society and regards competition as a means to foster cooperation. This distinction immediately leads to an important conclusion for the self-understanding of business ethics: Contrary to a

claim by Robert Simons (2013; p. 31), the proper role of a business school—and of business ethics as an integral part of a business school curriculum—is not to ignite the “fire in the belly” of future managers in order to make them more aggressive competitors. Rather, its proper task is to endow future managers with the analytical competencies for inventing governance structures that improve cooperation in order to make their organizations (and thus also their personal careers) more successful in competitive markets. In order to be a successful competitor, managers and the business firms they lead have to organize win-win relationships for productive cooperation. Again: Firms compete through cooperation (with stakeholders), but societies flourish by using competition as a governance device for improved cooperation, and it is this latter perspective that legitimizes market competition (and leadership programs in academia for the managers of organizations that live or die under market competition).

- Likewise, we can distinguish two different perspectives on stakeholder relations. The organizational perspective takes the point of view of the business firm and regards stakeholder relations as instrumental for earning profit. It is simply prudent—at least up to a certain degree—to serve one’s customers, to motivate workers and to encourage trust (and thus specific investments) by suppliers. In contrast, the systems perspective takes the point of view of society and regards good stakeholder relations as a valuable goal. In this regard, the ordonomic approach shares the understanding of “enlightened stakeholder theory” by Jensen (2002), although it does not follow him in neglecting that business firms can play an active role in overcoming market failures.
- Ronald Coase (1937) raised the question why business firms exist. His answer pointed to higher transaction costs of market exchange. But the immediate follow-up question has since then been largely ignored. Why is it the case that the business firm might have lower transaction costs than market exchange? Here, the ordonomic answer is straightforward: Corporate actors have a higher commitment capacity than natural persons. For an organization, it is comparably easier to form its own character and to communicate its governance-based integrity than it is for a natural person, e.g. by reporting its routines for quality management. An individual has a broad range of interests and a short-time horizon, while a business firm combines a narrow focus on profit orientation with a limitless time horizon, which makes it easier for the firm to become predictable for its interaction partners and hence lower transaction costs. To put it pointedly: Moral integrity is the economic *raison d’être* of the business firm.
- The ordonomic insight that it is easier for organizations, compared to natural persons, to bind themselves and that thus moral integrity explains the existence (and successful flourishment) of business firms was first published by Pies (2001; pp. 186 f.). It draws the systemic conclusion from an earlier insight by game theorists. For example, McMillan (1992; p. 27) wrote: “The British Parliament in 1834 conferred on companies the »privilege« of suing and being sued. The wording is significant. It is indeed a privilege to be able to be sued, for this means it is possible to make enforceable agreements, thus escaping inefficiencies of the prisoners’ dilemma type.” Still earlier, Schelling (1978, 1984; p. 152) wrote in a more general manner, covering both persons and organizations: “The »right to be sued« for breach of contract sounds paradoxical, but if one cannot be sued for breach of

contract one cannot find anybody to enter the contract. The right to have my mortgage foreclosed is part of the right to borrow money. The right to enter an enforceable contract is one of those important rights that we grant to corporations and that we withhold from children until they reach eighteen or twenty-one. If they can't repossess your car, they won't sell you the car on credit; if they can't hold you to your guarantee, they won't buy your merchandise." In contrast to McMillan, who often assumes that a manager can single-handedly decide—in fact dictate—the rules of the game within an organization, the ordonomic approach explicitly assumes that finding and implementing new rules is a social process that involves negotiation and discussion (and thus levels 2 and 3 in Fig. 4). And in contrast to Heath (2014), whose valuable contribution offers a "market failure approach to business ethics", the ordonomic approach is more radical in further assuming that the social process of finding and implementing improved rules can be hindered by "political failures" in meta games (level 2) and by "discourse failures" in meta-meta games (level 3). This brings ethics and economics close together, since an orthogonal position, i.e. a convincing moral argument, may be helpful in the management of dilemma structures that creates value by (de-)stabilizing (un-)productive behavior.

Conclusion: The ordonomic contribution to business ethics

For the ordonomic approach to business ethics, it is relatively easy to fulfill the two conditions derived in section I.

First condition: While win-lose recommendations are of little practical relevance for business life, (only) win-win recommendations are incentive compatible. However, simple calls for mutual betterment—e.g. by Porter and Kramer (2011) with their plea for "creating shared value" —are hard to distinguish from wishful thinking unless they are underpinned by an explicit rational-choice analysis that (a) explains exactly why win-win potentials have *not yet* been realized and that (b) gives valuable hints specifically *how* to accomplish mutual betterments. In this regard, the ordonomic approach can offer powerful guidance for how to use credible commitments to overcome unproductive social dilemmas and create value, thereby employing morality as a factor of production.

Second condition: Many parts of the business ethics literature have philosophical or theological roots and understand themselves as "applied ethics." This explains why there is a traditional dominance of theories that focus on individuals (instead of organizations), a manifest preference for strong normative assumptions and correspondingly a latent tendency to systematically underestimate the coercive power of competitive pressure on business behavior. In contrast, the ordonomic approach provides business ethics with a substantial connection to established traditions of economic analysis. From the ordonomic perspective, for example, it immediately suggests itself to use the governance definition by Oliver Williamson (2010; p. 674, emphasis in original) as a relevant starting point for teaching business ethics to future managers: "[G]overnance is the means by which to infuse *order,* thereby to mitigate *conflict* and realize *mutual gain.*" Due to its focus on social-dilemma situations and the productive role of credible commitments—fully in line with Schelling (1960, 1980), (1984) and (2006) and McMillan (1992)—it is sufficient to employ the relatively weak, even minimalist, normative assumption of a joint interest in implementing pareto-superior solutions, which resonates with the contractualist methodology of Constitutional Political Economy by Buchanan and Tullock (1962, 1990), Buchanan (1975) as well as Brennan and Buchanan (1985). The ordonomic interpretation of the rational-choice approach is inspired by Gary S. Becker (1976), (1996), Becker and Murphy (2000) as well as Bowles (2004) and Gintis (2009) and (2017). Furthermore, the ordonomic focus on corporate actors and their integrity provides a unified approach for analyzing for-profit as well as not-for profit (civil-society) organizations, which is important for integrating sociological, political and economic perspectives on learning processes both at the level of organizations or societies, especially in the arena of "new governance" initiatives.

To sum up: *Governance is the "G-spot" of business ethics*—extremely effective, not easy to find, and often missed by diverse approaches that prefer a narrow focus on natural persons and their individual motives, virtues, or duties. Such approaches tend to shy away from a system(at)ic analysis of the pivotal role organizations play in the competitive market processes of international capitalism and of the rule structures, often dilemmatic, both internal and external to the firm, that incentivize individual behavior. In this respect, the ordonomic research program offers a conceptual alternative, a change in perspective and a shift in emphasis from the level of individuals to the level of institutions: to the business firm as an organization and moral actor as well as to its pivotal role in competitive processes of innovative value creation.

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