**Ethical leadership, virtue theory and generic strategies:**

**When the timeless becomes timely[[1]](#footnote-1)**

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**Abstract:**

Rather than see virtue theory as an approach that is constrained and coopted by the often-unstated materialistic-individualistic assumptions that characterize mainstream consequential utilitarianism, we offer virtue theory as an alternative moral-point-of-view that allows researchers, instructors and leaders to develop theory and practices that challenge the mainstream. We develop a new model of ethical leadership and its relationship to business strategy that is based on virtue ethics rather than consequentialist-utilitarian assumptions. We use Porter’s generic strategy theory as an example, and develop Minimizer, Transformer, and Compounder strategies that reflect virtue theory’s concerns with process and well-being in the context of community.

**Introduction**

Despite a long history of reminders, scholars seem prone to forget that ethics are not monolithic. In other words, what it means for a leader to be “ethical” within one ethical moral-point-of-view may be very different from what ethical leadership means within an alternative ethical moral-point-of-view. In particular, what constitutes ethical leadership differs between virtue ethics and consequential utilitarianism. This chapter draws attention to how management theory in general is informed by ethics and moral theories (e.g., Bacharach, 1989), and specifically helps to integrate ethical leadership, strategy and virtue theory (Behnam & Rasche, 2009; Hosmer, 1994; Robertson, 2008). It demonstrates that the “preferred” outcomes of a theory depend on the ethical assumptions underlying the theory. We use virtue theory to both *develop* new leadership and strategy theory and to *critique* existing understandings of ethical leadership. This is important because virtue theory may be difficult to operationalize in management theory (e.g., Dyck & Kleysen, 2001), and the application of virtue theory to strategy is rare (notable exceptions include Arjoon, 2000; Bell & Dyck, 2011; Krsto & Ellwood, 2013).

The chapter lies at the intersection of four literatures: ethics, leadership, virtue theory, and strategic management. It contrasts and compares a generic strategy framework associated with consequential utilitarianism (Generic Strategy 1.0) with one based upon virtue theory (Generic Strategy 2.0). We pay particular attention to the capacity of virtue-based generic strategy to address socio-ecological challenges facing humankind. We exemplify this by developing a virtue theory-based model of generic strategies. Finally, we discuss the implications for a virtue theory understanding of ethical leadership and strategy.

**Meta-theory, ethics and virtue theory**

Weber (1958) argued that the formal rationality associated with capitalism was underpinned by the substantive rationality associated with the Protestant ethic, which differed from and replaced society’s previously-dominant substantive rationality (Dyck & Schroeder, 2005). Implicit in Weber’s analysis is the idea that differing “substantive rationalities” (e.g., moral-points-of-view, such as consequential utilitarianism and virtue theory) would produce differing “formal rationalities” (e.g., alternative conceptions of ethical leadership).

According to Weber (1958), modern corporations are no longer being managed based on a religious Protestant ethic, but rather this ethic has been secularized and replaced by what we today might call “consequential utilitarianism” (Dyck & Neubert, 2010; Dyck & Schroeder, 2005). The historical roots of consequential utilitarianism—developed by the likes of Jeremy Bentham, David Hume, James Mill, and John Stuart Mill—emphasize how desirable (i.e., ethically commendable) *outcomes* of an action are ones that generate the largest net *benefit* (including positive and negative externalities) for *most* people associated with the action (e.g., Gandz & Hayes, 1988; McKay, 2000). Over time, a short-hand version of mainstream consequential utilitarianism in business theory and practice has developed focusing on measuring the *outcomes* of actions in terms of their *financial* costs and benefits (where money serves as a proxy capturing most of the other costs and benefits) at the *firm* level of analysis (consistent with a popularized understanding of “the invisible hand,” where what is good for a *business* is good for *society*) (Dyck & Neubert, 2010; Gustafson, 2013; Smith, 1986 [1776]).

Weber was not the first to note that one’s moral-point-of-view would give rise to specific associated ways of organizing and understanding of ethical leadership. In particular, already two and a half millennia ago Aristotle and his Greek contemporaries recognized that the “economy is intelligible only as an ethical dilemma” (Booth, 1993:8 cited in; Leshem, 2016: 231), and they debated about organizational strategies and leadership practices that were “formally rational” vis a vis the “substantive rationality” of virtue theory (Arjoon, 2000; Solomon, 1992). Aristotelian virtue theory has at least three hallmarks that differentiate it from mainstream consequential utilitarianism. Virtue theory emphasizes: virtues (versus outcomes), holistic well-being (versus maximized financial well-being) and the larger community (versus the firm). We discuss each in turn.

First, virtue theory focuses on processes more than on outcomes. For example, it focuses on the leader’s *character,* not *accomplishments*. Virtue theory’s emphasis on character and the practice of virtues contrasts with consequential utilitarian ethics. From a consequential utilitarian approach it is unethical for leaders to allow process to impede the maximization of outcomes, which comes perilously close to saying the ends justifies the means. Conversely, from a virtue theory perspective it is unethical for leaders to focus on outcomes at the expense of their everyday practice of virtues. That said, while virtue theory focuses on the internal sphere, it also clearly influences the outer sphere (MacIntyre, 1981). In this way the processes and character of leadership may be observed in organizational practices and outcomes. Thus organizational practices that are developed based on virtue theory can subsequently influence the character of organizational members who work within those structures and systems (Dyck & Wong, 2010).

Second, whereas consequential utilitarianism implies that “more is better” (e.g., firms should grow in size and profits), virtue theory emphasizes knowing when “enough is enough,” and moreover asserts that there is enough to sustain everyone (Leshem, 2016: 226). Rather than assume that it is inherently good (ethical) to increase economic wealth endlessly, Aristotelian virtue ethics “call[s] into question the pursuit of economic goals as an end in and for themselves” (Leshem, 2016: 236) and assert “that a luxurious life (as well as an unending focus on economic life) is a perversion of the good life” (Leshem, 2016: 233). In particular, Aristotle distinguished between pursuing economic wealth for its own sake (unnatural *chrematistics*) versus economic activity that enhances the overall good for the larger community (natural *chrematistics*) (Aristotle, 2000; Crespo, 2008; Dyck, 2013a; Meikle, 1994). Natural *chrematistics* is evident when someone trades goods for money that is subsequently used to purchase other needed goods. This creates “true wealth” in a community among members who are contributing tangible goods to its well-being. In contrast, unnatural *chrematistics* is evident when someone uses money to purchase goods in order to resell them at a profit—what Aristotle called “spurious wealth”—in a way that does not tangibly improve a community’s well-being and which has no satiation (Meikle, 1994). This is consistent with modern economists who realize that there are limits to growth on a finite planet (e.g., Meadows, Randers, & Meadows, 2004).

Finally, the third hallmark that distinguishes virtue theory from consequential utilitarianism is that virtue theory has a distinct focus on the overall well-being of the larger community. In a nutshell, the goal of virtue theory is to optimize *eudemonia* (a deep sense of human flourishing and happiness), which occurs only via enacting the virtues in community (Flynn, 2008; Gavin & Mason, 2004; Koehn, 1998; Sinnicks, 2014). Thus, an ethical leader is someone who exhibits and promotes virtue in community and acts to maximize its collective well-being (*eudemonia*). In an economic context, firms *are* communities (Koehn, 1998; Solomon, 1992), and also *belong to* a larger community of organizations and the broader society. Virtue theory often emphasizes the “common good” (Arjoon, 2000; Pirson, 2011), which transcends both the interests of individuals *per se*, and their material or financial well-being.

In sum, virtue theory has radical implications for the *content* and *meaning* of ethical leadership. From a mainstream consequential utilitarian perspective it is unethical for a leader to incur financial costs that exceed minimum legal requirements in order to reduce her firm’s negative social and/or ecological externalities *if doing so compromises the financial outcomes for the firm* (Friedman, 1970). From a virtue perspective, it would be unethical for a leader *not* to reduce her firm’s negative social and/or ecological externalities *so long as doing so does not compromise the firm’s viability*. The radical nature of our approach is hard to understate. We are not using virtue theory to “tweak” existing mainstream theory about ethical leadership or strategy, for example, by arguing that ethical leaders should exhibit virtuous behavior while maximizing their firm’s (and their own) financial well-being. Rather, according to virtue theory, we are suggesting that maximizing financial well-being should not be the primary purpose of business. We are suggesting that nurturing community well-being should become the primary purpose, and that this involves ethical leadership character and practices that nurture organizational structures, systems, and strategies that facilitate *eudemonia*.

In the next section, we examine the implications of ethical leadership through the lens of organizational strategy, contrasting and comparing differences between consequential utilitarianism and virtue theory. In particular, we review the mainstream consequential utilitarian approach to strategy, and then develop a parallel approach based on virtue theory.

**Virtue theory, ethical leadership, and strategy**

The influence of organizational leaders is evident in many areas, but perhaps is the most pervasive in the development of firm strategy. Strategy involves the setting of organizational direction (Andrews, 1971), which is inherently an ethical process (Elms, Brammer, Harris, & Phillips, 2010; Hosmer, 1994). Scholars have argued that ethics and strategy have become divorced over time (Hosmer, 1994). We propose an alternate hypothesis – it is not that ethics have become divorced from strategy, but rather that the strategy literature so completely adopts the consequentialist-utilitarian moral framework that the two have become fused together. In this section, we demonstrate this by reviewing Porter’s generic strategy theory and then reinterpreting it through a virtue theory lens. Doing so provides the foundation for us to develop a set of generic strategies based on virtue theory paralleling Porter’s generic strategies.

Our method of developing alternative theory parallel to mainstream theory is well-established and consistent with those who argue that using paradoxical and competing assumptions provides a helpful framework for developing new theory and a more holistic understanding of management (e.g., Elsbach, Sutton, & Whetten, 1999; Lewis & Grimes, 1999; Poole & Van de Ven, 1989). This parallelism-based approach leverages the strengths associated with long-honored theoretical frameworks and addresses some of their shortcomings. In our case, we develop parallels to Porter’s generic strategies. We begin by reviewing Porter’s theory.

**Generic Strategy 1.0 (based on consequential utilitarianism).** Michael Porter’s work on generic strategies, along with his five forces and value chain frameworks, has been highly influential both among practitioners and scholars (Stonehouse & Snowdon, 2007: 257). It has robust empirical support delineating a range of direct and moderating effects (e.g., Dess & Davis, 1984; Kotha & Vadlamani, 1995; Miller & Dess, 1993; Wright, 1987). Our intention in describing Porter’s generic strategies is not to challenge existing theory and research, but instead to use it as a starting point to develop virtue-based generic strategies, which we call Generic Strategy 2.0. Because of their ubiquity, we focus on Porter’s (1980, 1985) early conceptions of generic strategies. We briefly review the ethical assumptions that underpin them, and highlight their value as “ideal-types” that provide a conceptual foundation for Generic Strategy 2.0.

The consequentialist utilitarian assumptions underlying Porter’s generic strategies are quite evident. First, the strategies primarily focus on maximizing’s financial outcomes. For Porter (1991: 95) the key question in strategy is “why [do] firms succeed or fail” (outcomes, consequences)? Firms succeed when they attain a competitive position that produces “superior and sustainable financial performance” (Porter, 1991: 96; Stonehouse & Snowdon, 2007: 268). Superior profitability is both “the right goal, and for firms, the only goal” (Stonehouse & Snowdon, 2007: 267). Thus, Porter’s generic strategy framework reflects consequentialist utilitarian assumptions: generic strategies enable firms to generate competitive advantage (outcomes) characterized by superior financial profitability (a materialistic conception of performance) at the firm-level of analysis (Porter, 1991; Stonehouse & Snowdon, 2007).

In *cost leadership*, firms strive to have a lower financial cost structure than rivals, leading to increased profits and/or enhanced market share (via lower prices). *Differentiation* occurs when a firm offers goods and services with unique features that command a premium price in excess of the extra cost of providing those features. These two strategies occur in the context of competitive scope (broad versus narrow).

A major criticism of the consequential utilitarian paradigm generally, and of Generic Strategies 1.0 particularly, is that while the theory and practice (formal rationality) associated with this paradigm (substantive rationality) contribute to unprecedented firm-level financial outcomes (which is ethical and good within this paradigm), they have done so at great social and ecological costs. The paradigm’s focus on maximizing competitiveness and financial performance diminishes people’s well-being and happiness (Kasser, 2003), encourages corporate scandals (Giacolone & Thompson, 2006), and harms the ecology (McCarty & Shrum, 2001).

Hence, there is little wonder that scholars have called for and begun to develop alternative leadership and management theories (Ghoshal, 2005; Mintzberg, Simons, & Basu, 2002; Stahl & De Luque, 2014), particularly those not based on materialist-individualist assumptions (e.g., Ferraro, Pfeffer, & Sutton, 2005; Giacolone & Thompson, 2006). As Hamel (2009) succinctly states, it is time to replace Management 1.0 with Management 2.0. In light of these concerns, our presentation of Generic Strategies 2.0 highlights their relative strengths in addressing socio-ecological issues. In other words, rather than focus on how ethical leadership seeks to increase the financial welfare of the firm (consequential utilitarianism), we focus on how ethical leadership improves the socio-ecological well-being of community (virtue theory).

**Generic Strategy 2.0 (based on virtue theory).** The Generic Strategies 2.0 we describe here—minimizer, transformer, and compounder—are grounded in virtue theory, and in important ways parallel the ideal types in Porter’s framework. Similar to Porter’s original model, in our model the minimizer and transformer strategies draw upon distinct logics, but founded in virtue theory. *Minimizers* reduce multiple costs (e.g., social, financial, ecological), including negative externalities. *Transformers* enhance multiple forms of well-being (e.g., financial, social, ecological), creating positive externalities by redeeming (infusing value into) elements of the environment that were previously undervalued or wasted. Minimizer and transformer strategies emphasize improved socio-ecological well-being (versus having a primary or exclusive focus on financial well-being) for the larger community (recognizing multiple stakeholders; going beyond a primary focus on financial implications at the firm level). This dual emphasis on reducing negative characteristics (minimizer), and enhancing positive characteristics (transformer), reflects ethical leadership (Neubert, Wu, & Roberts, 2013).

Because the business world has so completely adopted the consequentialist-utilitarian worldview, it is hard to look at the business world through “fresh eyes.” However, we now try to do so by looking at extant firms that most closely resemble the virtue theory worldview, although we admit that it is sort of like “putting new wine in old skins.”

Examples of minimizer strategy. Costco exemplifies a firm moving towards a minimizer strategy, though still with a concern for profits. Costco’s co-founder James Sinegal recognizes the social costs associated with paying low wages, and Costco has internalized these costs by paying its employees relatively high wages and benefits. Sinegal asserts that doing so “is the right thing” (Holmes & Zellner, 2004: 77); for him this is ethical leadership. Costco also reduces ecological costs, both internally (e.g., using solar energy and reducing packaging materials) and by engaging with suppliers who decrease their ecological footprints. While many of these changes save Costco money, Sinegal is also open to changes where the pay-off is not immediate or guaranteed: “Wall Street is in the business of making money between now and next Tuesday. We’re in the business of building an organization, an institution that we hope will be here 50 years from now” (quoted in Nadkarni, Chen, & Chen, 2015).

Another example is AKI Energy, whose leaders draw upon traditional First Nations philosophies and values more akin to virtue theory. AKI Energy provides geothermal heating for First Nations communities in Canada, and thereby reduces the fossil fuels and greenhouse gas emission associated with heating homes, minimizes customers’ heating and air conditioning expenses, reduces the money leaving communities, and reduces unemployment rates in Indigenous communities (Wood, Loney, & Taylor, 2015).

Minimizer strategies may also be evident when groups of organizations form communities to reduce their overall costs. For example, a biomass energy plant was developed in Gussing, Austria as a collaboration among multiple organizations to serve the needs of local homeowners and private industry; it reduced both energy costs to the community and greenhouse gas emissions, and reduced unemployment (Turiera & Cros, 2013).

Examples of a transformer strategy. Greyston Bakery in Yonkers, New York hires ex-convicts, trains them as bakers, and thereby enables them to “start over again” and become contributing members of society in a way that lowers recidivism (Bertrand, 2015). Its strategy is a reflection of what its founder, Bernie Glassman, considers to be ethical leadership:

“The company’s business approach is based on an idea developed from two key Buddhist concepts: mandala (wholeness) and path (transformation). According to these concepts, the company is managed in the belief that everything is interconnected, and that one cannot afford to ignore sections of society. Based on Zen traditions, Greyston places great emphasis on personal empowerment and transformation. Employees are encouraged to develop a sense of responsibility for themselves, their families, and their co-workers. Gainful employment is seen as the first step on an individual’s path toward success. Social justice, economic development and personal empowerment are the most important building blocks that support the operations that drive the company” (Zsolnai, 2015: 75).

Terracycle, Inc. has some attributes of an ecological transformer strategy. Founder Tom Szaky realized that it is profitable to take waste from institutional kitchens, transform it through a natural process of feeding it to worms, package the worms’ excrement into used soda pop bottles, and sell the output as fertilizer (Szaky, 2013). Terracycle now transforms or “upcycles” all sorts of consumer waste into marketable products (Allen & Knight, 2011). It works alongside schools (who get paid to collect waste and send it to Terracycle) and other corporations (who seek to transform their waste into sale-able products).

Example of a compounder strategy. The compounder strategy is a combination of minimizer and transformer. It represents a departure from Porter’s original model, which considered low cost and differentiation strategies to be distinct and mutually exclusive drivers. Thus, Porter thought it very difficult for firms to pursue both simultaneously. Subsequent empirical evidence suggests that firms may successfully execute “mixed” strategies that encompass both cost leader and differentiation (Kotha & Vadlamani, 1995; Miller & Dess, 1993). The same argument that supports the viability of mixed conventional generic strategy (e.g., Dess & Davis, 1984; Rothaermel, 2015) is extended here. We argue that firms may be able to simultaneously pursue *both* minimizer and transformer strategies in what we call a compounder strategy. That is, although the two strategies rely on different logics, some organizations may be able to execute both simultaneously. Firms may find ways to minimize their holistic cost structure *and* transform waste into valuable products and services.

Such a compounder strategy is evident in the ethical leadership approach of First Fruits apple orchard, the largest privately owned contiguous apple orchard in the United States. Consistent with a social transformer strategy, the First Fruits enhances the quality of life its workforce, which includes large numbers of formerly migrant workers. Rather than managing the workforce to maximize firm financial profitability by hiring and laying off (discarding, wasting) workers on an as-needed basis (as commonly occurs in their industry), First Fruits’ owners deliberately enlarged the firm to develop year-round jobs for many employees. This emphasis on year-round permanent jobs subsequently prompted the owners to open a day-care center to address the child-care needs of their packing plant employees, 80 percent of whom are women. In addition, a social minimizer strategy is evident because the firm minimizes nightshifts (especially stressful for employees with children). When the owners became aware of the housing shortage and poor living conditions employees were experiencing, they worked collaboratively with their region’s local planning committee to develop nearby affordable housing (Bairstow, 2005; Roberge, 2003; Sparks, 2003). In addition, First Fruits emphasizes elements of an ecological transformer strategy, emphasizing soil-rejuvenating organic practices (Pihl, 2012) and non-GMO apples (Warner, 2014), and its ecological minimizer strategy is evident in reductions of its use of pesticides. The comments from the owners of First Fruits provide a clear indication that their understanding of ethical leadership is well-aligned with virtue theory:

“When we started our business, we had nothing but a dream and the commitment to work it out. It was with the help of others who gave us every opportunity to learn, to participate, that we learned to fly. We needed an empowering team around us. When we finally became financially successful, it would have been easy to continue stockpiling money (as opposed to true wealth) around us. However, the spiritual values that we are also committed to would not let us. For us, it was impossible to separate business goals from spiritual values which promote the equality and connectedness of all people, using their unique gifts and skills to serve one another while together serving the common good.”

“Sure, we have to make money or we’d have to shut the doors … But profit isn’t our main motive. It becomes the by-product of treating people with dignity, respect, and mutuality, and as equals in every sense of the word. We all have a role to play in creating a community of people who care for a business that then cares for them. We believe that if we ever stopped doing that, we would implode” (cited inNeubert & Dyck, 2014: 65).

Finally, it is also possible that firms may come together in community to adopt a region-level compounder strategy. Doing so may allow the firms to access holistic cost reductions and transformations of waste that are unavailable to any of them individually (Asheim, Cooke, & Martin, 2006). One notable example of such an industrial ecological community is Kalundborg, Denmark, where multiple organizations take each other’s “waste” and turn it into valuable inputs (Valero, Usón & Costa, 2012), significantly reducing waste products and converting them into viable uses (c.f., Gibbs & Deutz, 2007; Hawken, 1993; Tudor, Adam, & Bates, 2006).

**Discussion**

In the remaining space we consider the implications of our argument and framework for teaching and practice as well as for theory and future research. In particular, we focus on ethical leadership based on virtue theory as it relates to a) formulating and implementing strategy and the four functions of management, and b) new theory and research that contrasts with the three hallmarks of consequential utilitarianism.

**Implications for teaching and practice**

While a conventional understanding of the generic strategies of cost leadership and differentiation still plays a central role among management scholars, educators, and practitioners, there has been a growing volume of what might be called “non-conventional” writing on strategy. Indeed, Michael Porter himself has tweaked his thinking, and challenges practitioners facing contemporary socio-ecological challenges to focus on creating shared value, even if doing so might not enhance short-term profit (Porter & Kramer, 1999, 2011). His work is still within the consequentialist utilitarian paradigm insofar as it is consistent with others who view social and ecological challenges as opportunities for business to maximize their long-term profits. Such tweaking may resonate with the ethics of conventional business leaders, but it may be counter-productive to addressing socio-ecological externalities that do not lend themselves to increasing profits (e.g., Gates, 2007; Margolis & Walsh, 2003).

In contrast, Generic Strategy 2.0 provides a helpful overarching conceptual framework for strategy formulation that assumes businesses care about society as a whole and meeting fundamental human needs, and that socio-ecological well-being is at least as important as financial well-being. It is consistent with calls for the conventional “value capture paradigm” to be supplanted by a “value creation paradigm” (Santos, 2012), with calls for the primary emphasis on self-interested profit maximization to be replaced by an emphasis on balancing multiple forms of well-being for multiple stakeholders (Dyck & Neubert, 2010), and with calls to see a firm’s rare and inimitable resources as something to be shared, not hoarded (Bell & Dyck, 2011).

Business schools typically teach an approach to strategy that is steeped in a mainstream consequentialist-utilitarian worldview. Although students who take a course in business ethics may be exposed to multiple worldviews that include both consequentialist-utilitarian and virtue ethics, most of their remaining studies are founded on the consequentialist-utilitarian worldview. As a result, it is difficult for students to appreciate that there are alternative moral points of view that produce different preferred outcomes with regard to everyday organizational practices. This points to the importance for the study of ethical leadership to go beyond courses in ethics, leadership, or leadership ethics. In our view, virtue theory should not be limited to a few select classes; it is a holistic paradigm that encompasses and is very relevant to all of management and business. For an example of what teaching accounting, finance, management and marketing from a virtue theory based understanding of ethical leadership might look like, see Dyck (2013b).

Even though virtue theory can be used to inform alternative theory and practice for all the business functions, the only currently available classroom resources we are aware of that integrate this perspective are textbooks in the areas of Management (Dyck & Neubert, 2010, being revised) and Organizational Behavior (Neubert & Dyck, 2014). Both these textbooks are unique because, in each chapter, they contrast and compare an approach to the topic at hand based on consequential utilitarianism, and an approach based on virtue ethics. In other words, students read about a consequential utilitarian and a virtue theory approach to goal-setting, motivation, organizing, controlling, change, strategy and so on (indeed, some of the ideas in the current chapter are drawn from and build on content from these books). In both texts, the virtue-based alternative to the dominant consequentialist-utilitarian perspective is supported by research and illustrated through the examples of vanguard practitioners. Empirical research shows that students in classes where these books are used tend to improve their critical thinking skills, change their views of ethical leadership (in particular, they come to adopt less materialistic and less individualistic views of management), and believe they have improved their ethical thinking skills (Dyck, Walker, Starke, & Uggerslev, 2011, 2012).

We now draw from these sources to consider how a shift from the consequentialist-utilitarian worldview to a virtue ethics worldview may affect the day-to-day behavior of ethical leaders. As conceptualized by Brown and Trevino (2006), ethical leadership includes behaviors that reflect being a moral *person* as well as a moral *manager*. Here is a brief description of a virtue-based approach to the four functions of management: planning, organizing, leading and controlling.

Ethical leadership and virtuous *planning*. From a virtue theory perspective, the management function of planning obligates leaders to work alongside others to set organizational goals and to develop strategy (such as the minimizer, transformer, and compounder). Such leaders exercise foresight by taking a long-term holistic perspective on planning. They use measurable goals, however they also use goals that may be difficult to measure, including goals related to human dignity, happiness and environmental sustainability (Neubert & Dyck, 2016). In particular, virtue theory suggests that leaders exercise the virtue of *wisdom* to set, align, and pursue achievement of goals that seek multiple forms of well-being for multiple stakeholders. The virtuous planner includes others in setting goals and making decisions related to their implementation to realize better-informed strategies and greater ownership of their implementation. Practically, this mutual discernment process results in goals throughout the organization that cascade down from and up to the formulation of virtuous strategies.

Ethical leadership and virtuous *organizing*. The process of organizing human and other organizational resources helps to achieve the strategies and goals that are set in the planning function. The virtuous organizer exercises *courage* to challenge current organizational structures and systems which are serving the interest of the powerful but not of the powerless, and to implement organizing fundamentals that empower marginalized stakeholders with opportunity and voice. Virtue theory serves as a basis to develop organizing principles that parallel mainstream organizing fundamentals such centralization, specialization, and standardization (Neubert & Dyck, 2014). Instead of centralizing authority and decision making, ethical leaders promote structures that *dignify* others by distributing authority, information, and respect across the organization, and invite members to exercise their authority to implement participatively-developed strategies. Instead of specialization, ethical leaders promote *sensitization* by expanding the scope of what an organizational member thinks about and does. Interaction with others within and outside of the organization is encouraged to better understand others’ needs and the interdependencies among the community of stakeholders. Instead of standardization, ethical leaders welcome *experimentation* that places a premium on learning and innovation that contributes to the sustainability of the strategies.

Ethical leadership and virtuous *leading*. Rather than an emphasis on positional authority and pressure, a virtue theory approach to leading involves listening and empowering, and welcomes community-wide influence and persuasion. The consequential utilitarian emphasis on techniques that maximize productivity are often extrinsically oriented and short-sighted. In contrast, virtuous leadership exercises *temperance* to resist the temptation to offer merely instrumental enticements to motivate behavior, and seeks to balance short-term and long-term interests (Bell & David, 2015). Instead of focusing on directing and structuring the work environment for primarily instrumental outcomes, the virtuous leader focuses on serving others and nurtures intrinsic motivation through meaningful work and growth. Rather than promoting simple and immediate compliance, this approach yields greater levels of creativity and cooperative behavior among organizational members (Neubert, Kacmar, Carlson, Chonko & Roberts, 2008). Such leaders are seen as servants who exhibit humility and model temperance in exercising self-control to resist temporal pressures for the sake of the long-term interests of the organization and other stakeholders (Molyneaux, 2003).

Ethical leadership and virtuous *controlling*. Organizational control exists when organizational members know what they are supposed to do and are held accountable to do it. While this conventionally takes the form of providing specific expectations, monitoring progress, and managing exceptions, a virtuous leader facilitates control by ensuring *justice.* Broadly, justice is a sense of fair treatment (Rawls, 1958). Beyond distributive justice, which is concerned with outcomes distributed according to inputs and thus could be a means of instrumental control, a virtuous perspective would include aspects of fairness associated with respect and inclusive processes (Colquitt et al., 2013). For example, a just approach to working toward fulfillment of a virtuous strategy ensures that everyone connected with an organization is included to some degree in providing input on implementation and that everyone also shares to some degree in success, including those external stakeholders benefited by minimizer and transformer strategies.

Finally, in response to readers who might argue that, because virtue theory is based on ancient ideas it may be esoteric and difficult to operationalize or observe in contemporary organizations, we note that the little empirical evidence that we have on this topic suggests that the opposite may be true. A study by Dyck and Kleysen (2001) asked management students to observe the behaviors of video-taped managers (a sales manager, a financial controller, and a general manager), and to classify their behaviors according to three templates: 1) Mintzberg’s (1973) three managerial roles (interpersonal, informational, decisional); 2) three of Fayol’s (1949 [1919]) four functions of management (planning, organizing and controlling); and 3) the four Aristotelian cardinal virtues (wisdom, justice, courage and self-control). Perhaps surprisingly, students were able to classify managers’ actions using the Aristotelian framework 89% of the time, more than the 80% and 82% associated with Mintzberg (1973) and (Fayol, 1949 [1919]) respectively. In sum, the study:

“provides an oft-called-for empirical basis for further work in virtue theory as an appropriate conceptual framework for the study and practice of management. The results indicate that virtue theory may be used to re-conceive our fundamental *understanding* of management, alongside its capacity to weigh moral judgment upon it” (Dyck & Kleysen, 2001: 561).

**Implications for research and theory**

We conclude by reviewing how a virtue theory approach to business contrasts and compares with the three main assumptions of mainstream consequential utilitarianism, and thus helps to develop theory and suggestions for research outside of the conventional (consequential utilitarian) box. First, and perhaps most importantly, virtue theory explicitly questions the mainstream consequence-centric mantra that “more is better.” Humankind lives on a finite planet with finite resources (Meadows et al., 2004). There are presently 7 billion of us, compared to 1 billion in 1804, and 2 billion in 1927. Some estimates suggest that we are already living 50% beyond the carrying capacity of the planet (e.g., Moore & Rees, 2013). In short, we cannot have ever-increasing “more” – it is simply unsustainable. Virtue theory provides a moral-point-of-view upon which to develop understandings of ethical leadership in a world where we need to re-learn when “enough is enough,” a world where transactions are characterized by natural *chrematistics* rather than unnatural *chrematistics*. The implications extend not only to our understanding and practice of management, or to the functions of business more generally, but also extend to the larger realm of societal institutions, norms and regulations. We invite future research that includes developing theory regarding how actors within industries can collaborate to reduce consumption, and how regulatory and societal institutions can support the development of a less materialistic and less individualistic operating climate for organizations.

Second, a virtue theory understanding of ethical leadership—in direct contrast to the economics-centric nature of mainstream theory and practice—legitimizes the intuitive view that there are more important things in life than money, and that a primary focus on money is dysfunctional (e.g., Kasser, 2003). More than money, people want to feel connected to others and to have a greater purpose; they desire meaningful relationships, reduced social injustice and ecological degradation, and an opportunity to leave the world in a better condition than they found it (Giacolone, 2004). Instead of seeking only to accumulate wealth for themselves, people are motivated to contribute to the well-being of the whole (Aguinis, & Glavas, 2012); people want their actions and those of the organizations they are part of to benefit the broader world in which they live (Neubert & Dyck, 2016). Virtue theory is premised on the understanding that true happiness (*eudemonia*) comes from healthy relationships with others, from working in a community towards larger (non-financial) goals. In particular, it says that ethical leadership is evident when virtues are practiced in community.

Future research can explore the implications of strategy formulation based on virtue theory and test the implicit hypotheses embedded in the suggestions for virtuous strategy implementation. For example, does implementing a strategy consistent based on virtue theory (Generic Strategy 2.0) enhance socio-ecological well-being (compared to Generic Strategy 1.0)? What is the effect on followers when leaders enact the four functions of management consistent with implications from a virtue theory perspective? Do followers become more virtuous themselves (as Aristotle predicted), more loyal, more productive, exhibit higher levels of organizational citizenship behavior, perceive their leaders as being more humble and more like servant leaders, and so on?

Third, a virtue theory understanding of ethical leadership draws attention to the dysfunctionality of focusing on the firm-level and thereby down-playing the larger community level (see also Donaldson & Walsh, 2015). Virtue theory is consistent with the intuitive understanding that the so-called “invisible hand” is dysfunctional *unless it is attached to a “virtuous arm.”* Adam Smith (2004 [1759]: 237) himself noted that people should be free to pursue their self-interest *only insofar as their actions are informed by* *virtues* like justice, self-control, practical wisdom and benevolence. Unabated pursuit of goals to maximize corporate or individual performance encourages excessive risk taking and engaging in unethical behavior (Larrick, Heath, & Wu, 2009; Ordonez, Schweitzer, Galinsky, & Bazerman, 2009). From a virtue theory perspective, it is foolhardy to focus on maximizing one’s own financial well-being—whether at the individual or firm level—without regard to the classic virtues, and expect that doing so will create positive outcomes for the larger socio-ecological environment. A narrow strategic focus on individualistic and materialist goals yields a limited set of outcomes organizationally and individually, whereas a virtuous approach prudently and temperately considers a broader range of outcomes for more stakeholders in both the short-term and long-term (Neubert & Dyck, 2016).

Future research could contrast the effects of strategy formulation and implementation based in virtue theory with consequentialist utilitarian theory on the level of negative socio-ecological externalities produced by the firm, on levels of income inequality within the firm, and on the character of relationships with customers. For a more specific example, what might be the implications for executive compensation models, which in most cases are solidly established in the consequentialist-utilitarian worldview? In contrast, as Bell and David (2015) argue, from a virtue theory perspective executive compensation could focus on a range of alternative outcomes that may be related to the minimizer and transformer strategies (e.g., fostering employment of marginalized members of the community, reducing ecological externalities), and to reflect the high level of intrinsic motivation present in the executive function (Moriarty, 2005) that may be impaired by extensive reliance on financial rewards.

In conclusion, ours is a bold vision. We promote virtue theory as a lens and moral foundation that enable and encourage leaders, researchers and educators to develop and promote business theory and practice that challenges dysfunctionalities associated with mainstream consequential utilitarianism. In particular, it is our hope this will enable the development of a more holistic understanding of ethical leadership that places greater emphasis on the *eudemonic* well-being of the whole community, and thus counteracts and subverts the negative socio-ecological externalities associated with the status quo.

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