

# Ethos as the New Strategic Resource

by

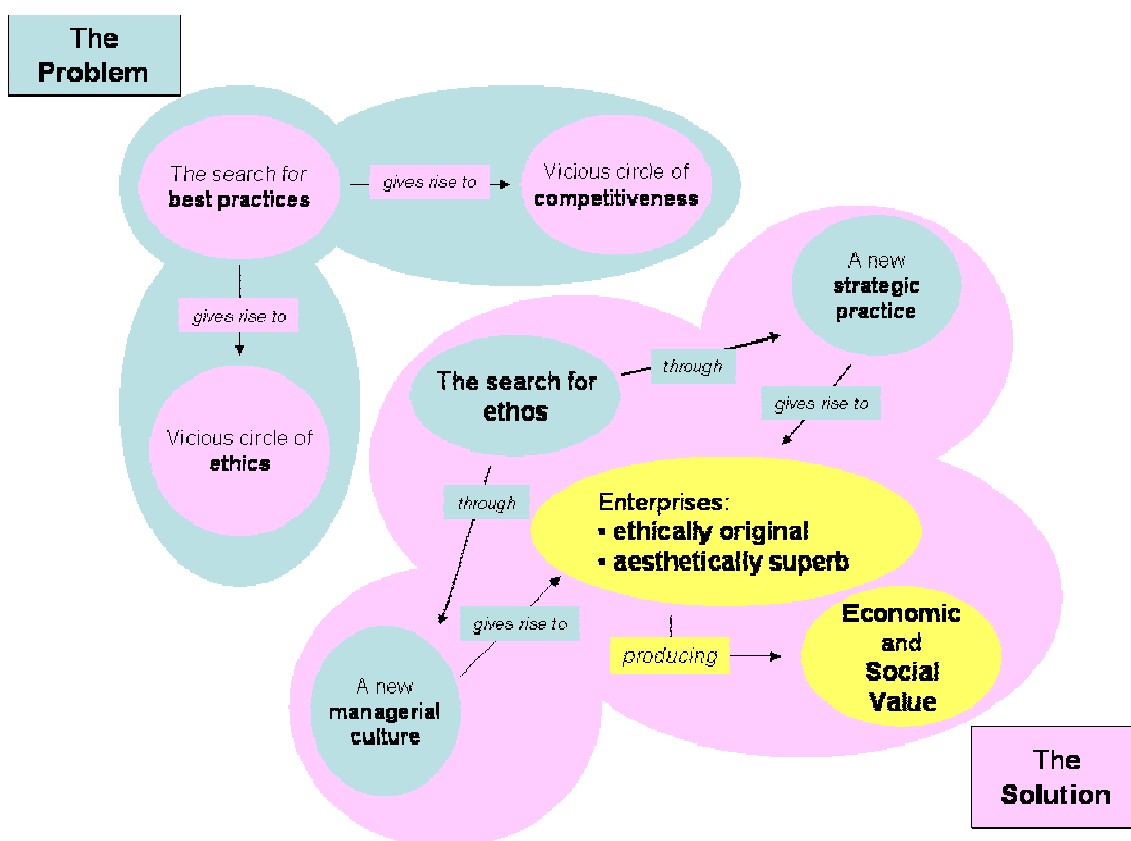
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## Abstract

This paper presents a dialogue between two people living on the opposite sides of the earth. In this abstract we use a new form of language to synthesize contents of the dialogue: semantic maps. Circles and ellipses contain major issues. The named arrows explain connection among different issues.

The paragraphs of the article are the different steps of the dialogue.



**Keywords:** aesthetics, complexity metaphor, entrepreneurship, ethos, new managerial culture, strategic practice, reasons against competitiveness.

## 1 Francesco Zanotti

A great opportunity thrown away: is that a possible synthesis of contemporary ethical issues?

Recently, I read in the most popular Italian economic newspaper an institutional communication where a major bank

reported its “table of involvements” drawn up by an audit company. This table certificated that the bank’s activity had no environmental impact and the bank did not finance “critical” businesses such as weapons business, pornography etc.

My considerations were very depressing.

First of all: this bank had something to do with recent problems in private banking services

But that bank would have informed customers that:

- They adopted new methodologies and services to evaluate and to support the development of economic actors. Current evaluation methodologies utilize just balance sheets (were the past is described. And the past is just the thing that will not happen in any case) and do not utilize strategic information. I would have been more confident if the bank had decided to utilize recent results and methodologies about the dynamics of evolution of economic actors.
- They adopted new market research and selling techniques to activate a more profound dialogue with clients.
- They adopted personnel policies in order to train and motivate people to use new market research and selling techniques.
- They activated a diffuse use of Web technologies as knowledge creation technologies.
- They activated a new strategic development process structured as we will describe below.

In other words, I would have trusted the bank if they would have described positive initiatives to change the present mode of doing business. Maybe, with a greater involvement of internal and external stakeholders.

Concluding: this kind of communication sounds artificial in dealing with the ethical issue.

Almost as if an unknown person would ask me to trust in investing my savings giving me a certification that he has nothing to do with pollution. The bank activates an innovative behaviour, but communication follows traditional and trivial models.

Actually, Stephen Cummings and I live in opposite parts of the world: New Zealand and Italy I have never met Steve. I bought a book edited by Steve “Images of Strategy” and I found a lot of common “cultural” friends and a lot of common ideas.

In particular, I found in his book a lot of exciting suggestions and some heterodox hypotheses were running through my mind.

These hypotheses were about:

- present crises;
- the need for a new entrepreneurship;
- what I call the “forgotten culture”;
- connections among ethics, aesthetics and strategy.

#### **Present crisis.**

Too many people (I would say the entire ruling class) believe that crises have been generated by fate. Starting from this belief, the only conceivable strategies are to resist and to wait for fate changing its bad bent.

Enterprises, institutions are changing, but towards a strengthening of their present identity. They are not willing to change their identity. Stability is the first pursued value.

As crisis diminishes, available resources (financial, of consensus etc.) enterprises and institutions have to compete one against the other. Competitiveness is the other pursued value.

To me that analysis and pursued values are very immoral.

Analysis is ridiculous too: do we really believe in fate? In such case, we should construct temples and spend time in prayer. The search for stability is just an attempt to maintain privileges and power. The search for competitiveness triggers a vicious circle which wastes resources and crushes people.

In synthesis we are pursuing perverse values (stability and competitiveness) in

spite of multitudes of people who wait and ask for a different world, populated by very different enterprises and institutions.

### **A new entrepreneurship**

In spite of every attempt to involve fate, humankind is the only creator of the world. If the world is populated by poverty and injustice, it is up to us to change it. In fact, we have to change enterprise and institutions. To do that, the ruling class has to start a new era of “projectuality”. I would say a new era of entrepreneurship, where new economic and social entrepreneurs take charge of designing and realizing new enterprises and institutions able to eliminate poverty, injustice and to generate happiness.

### **The forgotten culture**

To activate a new entrepreneurship it is necessary to have a more profound comprehension of the mechanisms of evolution of complex systems. During the 20<sup>th</sup> century, there have been huge progresses in understanding those mechanisms. The complexity metaphor is a synthesis of all these results.

It is strange (I would say irresponsible) that no one of these results is utilized to manage enterprise and institutions. We still consider enterprises and institutions as machines and we try to repair them with the hammer. The result would be the same as if we tried to repair a television with the hammer: we would transform images in fragments of glass.

### **Ethics, aesthetics and strategy**

To activate a new entrepreneurship which uses the new complexity metaphor to create new enterprises and institutions addressed to generate wealth, justice and happiness, I imagined that ethics, aesthetics and strategy were the key words. Designing strategy must become the main activity of new entrepreneurs, ethics their

motivation source and aesthetics the only evaluation parameter.

But we need new concepts of ethics, aesthetics and strategy.

At that point I encountered Steve’s book and ideas. I found them both exciting and complementary with mine. I wrote an e mail to Steve.

He replied in few hours and we started a very cheering talk.

I had an idea...

“Steve, why don’t we write a brief synthesis of your ideas and mine? I am currently publishing an article aimed at providing the Italian and European ruling class with a new managerial culture. I think that it will be a great idea to dedicate the contribution to our reflections on ethics, aesthetics and strategy.” Steve accepted.

### **An immoral and dramatic vicious circle**

Einstein suggested that when a problem is unsolvable it is essential to change the point of view from which we look at it.

At present, we are confronting a dramatic vicious circle that is more difficult to solve than an apparently unsolvable problem.

So we have to change very profoundly almost all our points of view.

To do that let’s start describing the vicious circle.

## **2 Stephen Cummings**

In the book previous to *Images of Strategy* called *Recreating Strategy*, I traced the development of management’s history and examined how by the end of the last century our field had become locked into a belief in best practices – the idea that there existed best ways that should be copied by all organizations. This idea had become so widespread that companies were becoming increasingly homogeneous. The trend toward best practice was good in the sense

that it weeded out inefficiencies (hence you will find very few poor companies around today), however, it was bad in that it discouraged companies from really taking risks, doing things differently, and standing out from the crowd. Things had advanced to the point that some companies found themselves in a vicious circle, where having become so similar to their competitors the only variable that they could compete on was 'price'. Their competitors were in the same boat, price wars ensued, and industry margins subsequently declined. To get out of this circle firms need to recreate the idea of strategy as copying what's generally "best". Strategy needs to be focused more on harnessing what is unique, personal and inimitable about a firm.

One of the ways that I believe organizations can recreate strategy is alluded to by Francesco above. In the book *Images of Strategy* a number of different images are put forward for thinking differently about strategy. One of the chapters looks at "Strategy as Ethos". Here I describe how business ethics has fallen into a rut similar to strategy. Companies feel that they must have a code or a set of values because this is "best practice". They are worried that if they don't they will be left behind. They use best practice techniques (hiring consultants, copying other companies seen to be leaders in this area, etc.) and subsequently come up with a standard list similar to the lists of their competitors. In other words ethics comes from without rather than from within – subsequently, for most companies, ethics is a purely copycat exercise driven by economic concerns.

In one example from the book, which I'm sure most managers can relate to, a finance company compares its list of core values, developed at great financial expense, to those of its closest competitors. It finds that its list: teamwork, cooperation,

integrity and so on; is almost exactly the same as the list of their competitors. Confronted with this finding, the CEO of the company in question declares: "If everybody has the same values then these are just hygiene factors – what we need are some added-value values".

Business ethics has become an economic hygiene factor for business. Hence, we should not be surprised to hear of Enron, Worldcom, and other scandals. These companies had core values and codes of ethical practice but they had almost no influence on their strategies as they had no particular connection to these companies, which is a great pity. We need, as Francesco suggests, to recreate our view.

### 3 Francesco Zanotti

#### **Self-building competition: an immoral behaviour**

Economic actors are actually building by themselves the competition that is destroying their capacity of producing value. We have lost a simple, but fundamental truth:

- Free market does not mean competition. Free market means a growing mess of opportunities.
- Competition arises when economic actors are not any more willing of reading and pursuing opportunities.

It seems to me that these considerations drive to the conclusion that the most immoral behaviour is to damage the capacity of producing value of an enterprise. How ingenuous is the discussion about the egoism of entrepreneurs! The problem is not the will of hoarding resources at any cost. The problem is the cognitive incapacity of understanding the new dimensions of making business.

#### **Avoiding innovation: another immoral behaviour**

Let's get out of the trap of thinking of the enterprise as the privileged term of comparison to talk about ethics and let's try to face the topic of the welfare state. It became evident that we should find a new model for the welfare state because the existing ones revealed themselves to be inadequate or unsustainable.

In the new model of welfare state that's going to be built, there will be room for private operators and for sure, amongst them, for insurance companies. Well, how can an insurance company define its own strategy to partake the making of the new welfare state?

To me, there's only one viable way, even though it can look strange. In short, it's necessary that insurance companies activate an entrepreneurial action at system level.

Let me clear this point. Today, there are ever growing difficulties in defining a new model of the welfare state because the actors involved in designing it are fighting among themselves and against institutions (government, above all) just to shelter their own ideologies and power. Now, without a new welfare state as a context for strategy, an insurance company doesn't really know what to do. And it must wait for the fight to end somewhere. But a solution can require a lot of time and lead to a welfare state that could even be patched and contradictory, thus making it impossible to conduct a business action for an insurance company that would be willing to operate in the social business services (health and social security).

Today, the activity of insurance companies in social business is marginal and made at an opportunistic level. Actually, insurance companies are waiting for somebody to come out of this deadlocked situation.

Well, I believe that this behaviour is immoral.

What else can insurance companies do?

They should activate a new kind of entrepreneurship not just imagining services to deliver, but also creating the

context for these services to become desirable and feasible. They should activate what I defined as social entrepreneurship.

Insurance companies should learn and use the new methodologies of social project-making available today. Through these methodologies, they could transform the present conflict situation into a social dialogue which can lead to a new model of welfare state judged good and appropriate by everybody.

In this way, insurance companies would have created the context in which they could activate the normal strategic projectuality at the company level to assume the role that would be specified in the new model of welfare state.

This new social entrepreneurship shouldn't imply trespassing the limits of the entrepreneurial role, but the invention of a new entrepreneurship revealing itself in society, first, and then in the economy. A new entrepreneurship is required to be willing to assume the responsibility of operating in business with high social values.

This kind of strategic disengagement is considered almost natural in several other industries. Take for example banks. They are still devoted to their traditional social role: financial intermediation and services. Which bank is imagining a new role for banks in the development of economic systems? For example a role in selling knowledge (mainly strategic metaphors, methodologies and tools) instead of just financial resources and services?

Well I think that all kinds of strategic disengagement are immoral behaviours.

### **Ethic, aesthetics and strategy to overcome vicious circle**

The strategic challenge is to build new economic actors.

That means: no longer as in the past. I mean the problem is not to be more competitive, nor to be more ethical in the

sense of a larger correspondence between ideal codes of behaviour and concrete behaviours. The problem is to change profoundly the identities of economic and social actors. Steve says that there are three main kinds of resources to build the new identities that economic and social actors need.

#### 4 Stephen Cummings

So, how can we respond to this strategic challenge? In the chapter from *Images of Strategy* that I started to describe earlier it is proposed that we should perhaps think about “ethos” rather than what currently passes for “business ethics”. The advantage about starting from ethos is that while we tend to associate ethics with generally accepted norms and values that should be followed by all members of society, we accept that these same members may have a unique and individualized ethos. In English definitions of ethos relate the term to a “distinctive spirit” or “particular genius”. If we start thinking about ethics from this alternative ethos viewpoint we can develop quite different, unique and inimitable ethical positions or added-value values for companies.

This is not a new approach to ethics. Rather a very old, but forgotten, one. It draws upon Aristotle’s view of ethics as being about discovering one’s particular virtues through self-reflection. Aristotle recognized that nobody could satisfy all stakeholders or be good to all people all of the time. This was unrealistic and those who sought to be all things to all people could only pay lip-service to this idea. Aristotle suggested that the man who tried to be best friends with everybody would be recognized as inauthentic – a true friend to nobody.

Moreover, Aristotle claimed that because people were different we must realistically expect that they would respond differently

to the same situations, there could be no realistic general code. Each individual must decide for himself what the best course to him is and then avoid lapsing into extreme behaviors on either side of this course. Between, if you like, not being oneself and an over-zealous parody of oneself. But this individual virtuosity is a good thing, Aristotle argued. If everybody did carry on in the same way the world would become a very boring place – nobody would ever stand out and creativity would wither away. Ethics, for Aristotle was about finding one’s proper “consistent individuality”.

This idea of a consistent individuality is, I believe, a very helpful attitude for companies to adopt, and in *Images of Strategy* I offer a number of case examples of companies who have not adopted this attitude and struggled and others who have embraced it to good effect. These cases range from

- British Airways’ decision to become the “world’s favorite airline” and replace the Union Jacks on its tail fins, only to find that a particular “British” type of style and service was one of the only virtues that separated it out from the competition;
- Nike’s response to complaints about its activities in developing countries which started with the development a code of practice (which was a good thing – a necessary hygiene factor) but then went too far into trying to show itself to be a “caring, sharing” company – something which compromised its particular virtue of being seen as “rebellious”;
- How the BBC benefits by being seen as the Queen Victoria of television channels, even though

the Queen Vic ethos is not everybody's "cup of tea";

- And a brand of beer that developed such a strong association with a particular gruff comedian that featured in its advertising that his character began to focus the company's strategic decision making (in effect, when confronted with a decision, managers asked themselves "well, what would Jack do?")

The book also looks at some alternative ways of thinking about an organization, ranging from applying Nietzsche's idea that "3 anecdotes" can convey a character (be it a person or an organization) far more than any abstract list; to thinking about simple questions like: "If our organization was a person, what would our character be? and How would this character make us and our actions different from our competitors?; to more complex frameworks that break ethos into its constitutional elements.

And, throughout all of this thinking, rather than trying to generally good all the time, the focus, from an ethos perspective, is individual and aesthetic: on how an organization can develop its "legitimate strangeness" to use French philosopher Michel Foucault's term?; on how can it create a body or *oeuvre* that is consistently different from the rest but which evolves over time – in much the same way as the work of an artist like a Picasso or a Van Gogh.

This can then provide ways out of the vicious circle described above. It enables people within an organization to focus not on "what is best practice" and how can we copy it?", but on "what are we going to do next and how will this be different from our competitors and difficult for them to copy?" If you like, it enables a shift from

best practice to next practice – something similar to what you've talked about in your own work Francesco.

## 5 Francesco Zanotti

I would like to finish our talk with a proposal with the hope that realizing free and strong dreams will allow us to recreate development.

Before illustrating my final proposals I would like to summarize the main message of our talk:

- The main assets of an organization are personal and organizational ethos.
- The strategy design process must be something like what Michelangelo thought was to be done to create a work of art: to eliminate from an unworked block of marble all what hides the "statue". Out of the metaphor: the strategy design process must eliminate all what prevents ethos from exploiting its potentialities
- The result of extracting and exploiting ethos will be a company with a unique identity, ethically inspired and aesthetically superb.

To work out successfully the job of creating companies as works of art I think it is essential to have in mind some specific dynamics of evolution of complex systems that, unfortunately, for the time are completely unknown to managerial culture.

**Ethos of people and organizations tends to become blocked.** As metaphor of autopoietic systems reveals every complex system (a human being as well as an organization) tends to become self-referential. So when an individual or an organization is stimulated to reveal its profound ethos, it might happen that this ethos is the continuous repetition of itself. A boring and poor ethos.

So the challenge is clear: **before utilizing ethos to design new identities, it is important to unblock them.**

So, here is the **first proposal**. The basic condition to nourish the strategy designing process with the ethos resources is that top management become aware of main dynamics of the evolution of complex systems. **That means that an educational effort to supply top management with new knowledge on complex systems is important and urgent.**

Free and strong ethoses are able to develop ideas and proposals to design new identities of companies. But as ethoses are free and strong it might happen that their proposals are very different one from the other. So these proposals have to be coordinated and synthesized all together.

For this process (which must become the core of the new process of strategy design) of coordination and synthesis to be successful, mainly in large organizations structured in network, it is important that top management:

- **Considers this process** not as a rational top down process to be carried on in secret rooms, but as a **social knowledge creation process** where the top management role is to stimulate, starting from organizational ethos as raw material, the generation of new ideas and the synthesis of these ideas in a new strategic identity of the company.
- **Uses, as their main strategic tools, methodologies and technologies to manage social knowledge creation process.**

The social designing methodologies, that I have mentioned when I described the possible and desirable new social entrepreneurship of insurance companies,

are a concrete example of methodologies to manage social knowledge creation processes.

Unfortunately top management is more accustomed to consider strategy designing as a personal affair. Other people in the organization can and must become protagonists just in making top management strategic objectives being realized.

Consequently top management prefers to use tools and culture of power and they do not care about methodologies and technologies to manage knowledge.

There is a signal revealing that **top management is more oriented to power rather than to knowledge**: the state of the art of exploitation of potentialities of Web technologies.

These technologies are considered important but operative transactional tools. So decisions about Web technologies are delegated by top management to operating managers who look at web technologies as tools to solve their problems and in no way as enabling technologies to change the way of making strategy.

Think of e-learning and knowledge management: they are considered tools to distribute operative competences and knowledge. The consequence, at least in Italy, is that experiences of e-learning and knowledge management are realized having in mind the word “costs” and not the word “investments”. So: primitive systems and poor results.

No one looks at e-learning and knowledge management systems as the only tools through which it might be possible to stimulate and manage social knowledge creation process.

Looking back at ideas expressed in this dialog and to my proposals I am forced to this surprising and nasty conclusion: the old, but very diffuse way of thinking of and practicing strategy, is the main obstacle to recreating companies that are unique, ethically inspired and aesthetically superb. So the very diffuse way of thinking



of and practicing strategy is the main obstacle to build development and, consequently, the most “immoral” attitude.

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