Chapter 12: Morality & Ethics of Strategy — Where Power Meets Permission

A board-level guide to setting the boundaries that make advantage legitimate

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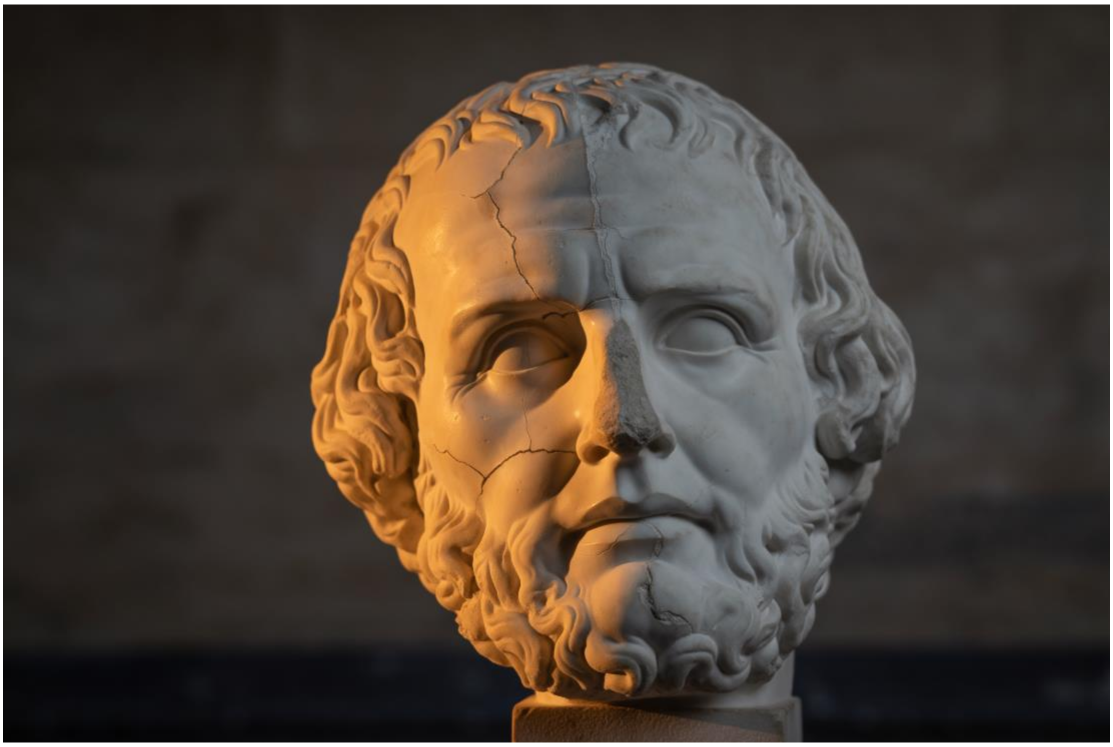

Power earns permanence only when proportion guides it. — Aristotle, reinterpreted for the boardroom

Chapter 11 closed on the edge of evidence: risk you can measure, uncertainty you must judge, and the irreversible commitments that turn analysis into leadership. This chapter begins exactly there. When choices bind other people to futures they did not choose, strategy stops being only a method and becomes a question of permission. The work ahead is to make that permission explicit, practical, and public.

Strategy is amoral; leadership cannot be. It names a boundary every board eventually meets: the moment when analytical clarity runs out and choices still carry weight. Without the second, the first corrodes its own foundations.

The Core Question

Does strategy have morality? No. Strategy is a technique for making choices under constraint—an architecture of trade-offs that helps leaders decide where to play, how to win, and what never to do. Tools do not carry values; people do.

Must leadership have morality? Yes. Strategic decisions concentrate power and set off chains of consequence—capital moves, markets reprice, suppliers reorganize, jobs appear and disappear, ecosystems shift. When choices are consequential and often irreversible, leadership leaves the realm of method and enters the realm of duty. Without a moral frame, the firm's advantage is achieved by exporting costs it refuses to count. With one, advantage compounds because others trust your intent.

"Strategy defines direction; morality grants permission."

This chapter does not preach. It translates duty into operating discipline. It distinguishes personal morality from institutional ethics, shows how governance models encode different answers to "what is good," examines a crisis case where cleverness became damage, and ends with a simple instrument: a public moral and ethical charter that sets the hard edges within which a company may compete hard—without losing legitimacy.

Morality vs. Ethics: A Working Distinction

Morality is the set of values we hold about what ought to be. Ethics is the system through which those values become decisions—roles, rules, tests, and routines that convert belief into practice. Individuals may be moral; organizations become ethical.

The distinction matters because self-legitimation is easy. The arms manufacturer claims to protect lives. The oil company "powers the world." The cigarette maker sells "relaxation." Each statement is partially true and still ethically insufficient if it ignores who bears involuntary harm, how reversible it is, and whether the exchange is consensual. Waving at a desirable end does not excuse any means.

Throughout this book we stressed clarity of intent, the discipline of timing, the weight of irreversibility. Ethics gives those ideas a spine. In practice, it asks four quiet questions of any major decision, not as bureaucracy but as judgment:

What happens if we do nothing—or if someone else does it? Substitution matters; net effect matters more than self-image.

Which means are off limits, even if they "work"? Predation, deception, exploitative data capture, end-use blindness—means reveal character.

Who pays which costs, willingly or not, now and later? Scale, reversibility, and time change the ethical weight of a choice; intergenerational, non-voluntary harm cannot be waved away by a quarterly gain.

Is the exchange informed and voluntary? Culture products like wine live within consent and dose. Engineered addiction, forced dependence, or opaque lock-ins are something else.

These are prompts for adult conversation before a choice becomes a commitment. Leaders who treat them as a quick checklist miss the point. The work is to reason in the open.

"Do No Evil" vs. "Do Good"

Two duties, one order of operation.

"Do No Evil" is a *hard floor*: prevent non-voluntary harm and ban means you would not defend in daylight (predation, deceptive design, exploitative data capture, end-use blindness). These are **guardrails**. If a proposal crosses them, it stops—regardless of return.

"Do Good" is a *positive mandate*: within those boundaries, allocate capital and design products to create net value beyond the firm—measured in outcomes (absolute emissions down, supplier resilience up, user trust sustained).

Operating order: first the floor, then the ambition. A firm that skips the floor drifts into purpose-theatre; a firm that skips the ambition settles for compliant minimalism.

How it shows up here:

Guardrails and the **Irreversibility Gate** operationalise *Do No Evil*.

The **Impact P&L**, **Counterfactual-Adjusted Impact (CAI)**, and legitimacy KPIs operationalise *Do Good*.

Example: In a crisis, stretching **DPO (Days Payables Outstanding)** for fragile suppliers would have failed *Do No Evil*; offering opt-in supply-chain finance and clear exit criteria fulfilled *Do Good*.

Governance Shapes Ethics: Anglo-Saxon and Rhineland

Strategy inherits an objective function from the governance model in which it operates. Two dominant traditions make different promises.

In the Anglo-Saxon world, shareholder primacy provides a hard north star: create superior returns; justify choices ex post through performance. Its strengths are speed and capital discipline. It rewards clarity, forces trade-offs, and deters comfortable drift. Its risk is social myopia: harms that do not price quickly into cash flow are treated as noise until they return as regulation, protest, or a broken talent market.

The Rhineland tradition of stewardship and co-determination begins elsewhere. Legitimacy is secured ex ante through process and participation. Firms are accountable to a wider set of stakeholders; continuity matters. The benefits are resilience and a thicker licence to operate. The risk is vagueness and delay: moral comfort can become a sleeping pill that avoids the hard cut of strategy.

Mid-market leaders rarely get to choose pure forms. They live in mixed economies with public expectations and capital markets. The way forward is not to pick a camp but to make the trade explicit: a **Dual Objective Mandate**. Economic value creation remains non-negotiable: returns above the cost of capital, positions that endure, options that increase freedom of movement. Alongside it, **strategic legitimacy** becomes a managed asset: trust with customers and regulators, access to talent, a reputation for fairness that lowers friction in repeated games (see Chapter 9 on capital as commitment). When the two rub, guardrails decide. These are the non-negotiable lines on means and end-uses that leadership will not cross—even when the spreadsheet says “yes.”

The result is not compromise for its own sake. It is a sharper strategy because the field on which you can move fast is clear. Inside those boundaries, go hard.

Outside them, say no—publicly and consistently—so people believe you when you say yes.

Competing Hard, Competing Fair

Is it ethical to take market share at a rival's expense when jobs will be lost? It can be—if the win comes from merit and the game remains open. Competition is a discovery process. Customers gain when better price-to-value, reliability, or design replaces worse. The hurt is real and still legitimate when performance changes who wins.

The line is crossed when victory relies on means that a reasonable board would reject in the open: predatory pricing to kill rather than learn, deception, regulatory capture, exclusionary bundling that denies rivals access on merit, or lock-ins that turn switching into punishment. It is also crossed when the firm's success systematically depends on exporting non-consensual harm—privacy abuse, environmental damage, unsafe labour conditions—onto those with the least power to object.

Leaders who intend to compete hard therefore carry a second obligation: to handle collateral damage like adults. That does not mean paralysis. It means planning for absorption—re-hiring and reskilling where possible, fair notice to suppliers, reasonable exit paths instead of extraction, and the habit of counting external costs in the business case you choose to believe. A company that wins on fair means and owns its impact is not apologizing for success. It is making success repeatable (see Chapter 6 on control points and the discipline of self-restraint, and Chapter 5 on unique assets as the basis for merit-based advantage).

When Clever Became Harm: A Crisis Case

During the financial crisis, many large companies ran cash war rooms. Working-capital playbooks—promoted and normalised by major strategy houses, notably **McKinsey**—promised oxygen: reduce **Days Sales Outstanding (DSO — collect receivables faster)**, extend **Days Payables Outstanding (DPO — pay suppliers later)**. Liquidity improved—centrally. Late payments were not a nuisance; they were the difference between survival and administration. The advice "worked" on paper. It also amplified a downturn into a cascade of failures.

What went wrong

Why did this happen? The objective function was mis-specified. "Maximize cash now" treated the ecosystem as a reservoir to be drained. Metrics did the rest. DSO and DPO moved immediately and could be attributed to the program. Supplier distress and lost capacity showed up months later—off the scorecard.

Principal–agent dynamics added moral distance: "we advise; the client decides." In the heat of crisis, playbooks replaced judgment. What fit a strong, diversified buyer's balance sheet did not fit a chain where the weakest links had no buffers. There were no guardrails. No one had written down: do not extend terms for SME or single-source suppliers; do not weaponize bargaining power in a system shock; do not shift your panic to those who cannot carry it.

Why McKinsey, specifically, overshot the curve was not a matter of intent so much as **system design**. Its engagement economics rewarded visible, rapid, attributable results; working-capital levers score well on that axis. Its risk posture and role framing created **moral distance**—advisers optimise; clients decide.

Its global codification of "cash war room" playbooks made **scalable certainty** feel safer than local judgment. Its organisational prestige and procurement positioning encouraged executives to accept the framing without hard challenge. And its metric stack lived where finance measures quickly—DSO/DPO—while the true system costs materialised slowly, in someone else's P&L. In short: the firm's incentives, framing, and codified methods produced an answer that looked professional, travelled well, and harmed the periphery. Renown amplified reach; it did not improve the objective function.

What to do instead

There was a better way, and many firms chose it.

A contrasting vignette: a European mid-market industrials firm segmented 1,200 suppliers, froze terms for SME and single-source vendors, and funded opt-in supply-chain finance at its own cost of capital. It reached its liquidity target in six weeks, reported zero SME insolvencies in tier-1, and exited the crisis with higher supplier NPS and priority allocation for two years.* Segment suppliers by criticality and vulnerability and hold their terms constant. Offer voluntary supply-chain finance so those who need early payment can get it at your cost of capital. Use dynamic discounting as an option, not a threat. Sequence burden sensibly—pause buybacks and bonuses before extracting liquidity from those who feed your product. Publish exit criteria for crisis measures so trust has a date to return. Track distress as a metric of leadership, not a footnote.

Supply chains remember who pulled them through and who pulled them under. In later cycles, the former get priority, better terms, earlier innovation, and goodwill you cannot buy. The latter get price and paperwork—and a queue number.

Outdoor Connect names this example deliberately. Renown is not a proxy for right. **We will not** recommend extracting liquidity from the weakest links to save the strongest; and we recognise that holding that line is hardest precisely when pressure peaks. That is why our crisis guidance encodes segmentation, shared burden, supply-chain finance and clear exit criteria as defaults, not exceptions.

Why Leadership Must Be Moral

There are five reasons, woven through practice rather than preached from principle. Each one shows up in day-to-day governance—not as ethics theatre, but as performance over time.

Irreversibility**.** Strategy governs commitment. Once a platform, market, or model is chosen, others reorganize around you. When you close alternatives for others, the moral bar rises. *Implication:* push more evidence and mitigation through the gate as lock-in grows—e.g., pilot before platform, reversible contracts before exclusivity, staged capital before full re-platforming.

Legitimacy as a production factor**.** Moral clarity lowers friction with regulators, courts, communities, and partners; it reduces the cost of capital and attracts talent who want work they need not explain away. *Implication:*treat trust as an asset on a cadence—pre-clear sensitive moves with regulators, publish auditable progress, and bind executive pay to a small set of legitimacy KPIs alongside ROIC (Return on Invested Capital).

Coordination under uncertainty**.** Principles act as focal points when evidence is insufficient, giving teams a shared rhythm so they can move without waiting for case-by-case permission. *Implication:* convert principles into operating heuristics (what we always do / never do / decide at what level) so decisions accelerate without eroding intent.

Externalities discipline**.** Advantage that relies on exporting non-voluntary harm—emissions, unsafe work, data abuse—is brittle. Owning the cost early is foresight, not charity. *Implication:* price non-voluntary harms into the business case (internal carbon, safety and privacy budgets), and design products to make the least-harm path the default.

Reputation in repeated games**.** Customers renew, partners choose, employees talk, capital compares. Predictable fairness—declared rules, consistent application, transparent trade-offs—compounds. *Implication:* hard-code self-restraints that trigger with market power (API access, data portability, fair partner terms) and enforce them even when inconvenient.

Moral leadership is therefore not idealism in the margins. It is how you raise the quality of commitment, reduce avoidable friction, and keep the organisation coherent when certainty is scarce. None of this demands sainthood. It demands adult supervision of power.

From Principle to Practice

Ethics becomes real when it changes how decisions are made *(see Chapter 7 on execution cadence and institutional rhythm)*. A few habits matter more than many slogans.

Before major commitments, put the impact on the table—as you would any cost. Not as a report for public relations, but as an internal "Impact P&L" written with the same discipline you apply to cash: who benefits, who pays, when, and how reversible it is. Do the counterfactual honestly: if we abstain, what replaces us and at what price to the world? Say so plainly. Strategy is choice; honesty is respect.

Treat irreversibility as a gate, not a note. The more a decision locks you in or others out, the higher the evidence bar, the thicker the mitigations, and the stronger the review. Make this proportionality explicit. People accept hard news when they can see you increased the weight of proof as the stakes rose.

Institutionalize dissent. Appoint a small, credible group whose job is to challenge the means, the externalities, and the realism of mitigations. Give them escalation rights to the board and hold them to the same rigor you expect from growth teams. Reflection without teeth becomes ritual.

Count legitimacy alongside returns. Publish a handful of simple, auditable indicators you are willing to be judged on—environmental progress in absolutes; the share of capital now committed to the next system; the health of your supplier base; the trust of your users. Put them in management's rhythm so they are not wallpaper *(see Chapter 10 on strategy as a living system and review rhythm)*. The purpose is not perfection; it is to make drift visible.

Finally, design for "hard but fair." If you control a choke point, keep the market open: clear APIs, reasonable data portability, partner terms that reward contribution rather than dependence. A firm unafraid to self-bind in power is more trusted when it asks for it.

Recommendation: A Public Moral & Ethical Charter

Make the boundaries explicit. A short, public charter—two pages is enough—turns aspiration into operating permission. It begins by stating the firm's objective function in plain language: we pursue economic value and strategic legitimacy together. It names three principles: truth in how we present our choices; duty of care to avoid non-voluntary harm and to mitigate what remains; fairness in who benefits and who pays.

It then sets guardrails on means and end-uses. Not everything legal is acceptable here. List what you will not do—deceptive design, predation, exploitative data capture, end-use blindness, lock-ins that trap. Where your products touch sensitive domains, define screening standards that travel with the sale: who you will not supply, what regimes you will not enable, which red flags trigger a stop.

Describe the decision process at a human level. Major moves come with an Impact P&L, a counterfactual view, an irreversibility rating, and a short account of how dissent was handled. Name the few metrics that mark progress and the cadence with which you will report them. Say who can stop a decision and what happens when rules are broken. Commit to review the charter annually and in crises.

Publishing such a charter is not grandstanding. It is a promise to your own people and a request to be held to it by those who watch. If you are unwilling to make it public, it probably isn't policy—it's marketing.

The Questions Your Charter Must Answer

- What, precisely, is our **objective function**—and how do we resolve conflict between return and legitimacy when they collide?
- Which **means** are off the table even if they deliver numbers?
- How will we judge **net impact** when others can substitute for us (counterfactual and substitution)?
- Which **harms** will we never leave unpriced or unmitigated?
- When is a decision considered **irreversible** in this firm—and what extra burden of proof and mitigation does that trigger?
- Which **end-uses, markets, or customers** are prohibited regardless of opportunity?
- What standards of **consent and data stewardship** govern our products and platforms?
- Who carries the mandate to **challenge and escalate**—and what happens when they do?
- What will we **publish**, how often, and **who verifies** it?
- How will we **protect fragile suppliers** and critical ecosystems in a crisis?
- As our **market power** grows, what self-restraints will we pre-commit to?
- How do we **engage employees and stakeholders** without freezing decisions?
- How are **leadership incentives** tied to the promises we make here?
- When will we **revisit this charter**—and what triggers an early change?

Answer them once, clearly. Then let those answers travel with capital allocation, product, market entry, and M&A—so people stop guessing what kind of company they are building.

Bridge to the Epilogue

The epilogue steps back from the mechanics and asks a final question: what kind of future does this way of working make possible? If strategy is the discipline of shaping advantage, and ethics is the discipline of permission, then the closing argument is simple: companies that carry both build not only durable positions, but places where talented people choose to spend their lives. That — more than any metric — is how you know strategy has direction and leadership has permission.