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TOWARD A NEW SOCIAL CONTRACT THEORY IN STRATEGIC MANAGEMENT

ABSTRACT

This paper suggests that strategy research should move beyond a neo-Hobbesian approach to contracting toward a new social contract approach. Altruism, ethics, goodwill, moral sentiments, and trust need to be placed in the foreground of our vision, especially for strategy questions involving interfirm relations. Work from a transaction cost perspective has generated many beneficial insights, but even within the firm the description of agent behavior is limited. The problems of contracting are even more in evidence across organizational boundaries. Behavioral theories provide needed additions for strategy research, and these approaches have explicit implications for contract theory.

TOWARD A NEW SOCIAL CONTRACT THEORY IN STRATEGIC MANAGEMENT

Superior firm performance via interfirm cooperation is difficult to achieve (Borys & Jemison, 1989). Alliance between firms is basically a problem of incomplete contracting, in that alliances take place in a complex environment that precludes the possibility of writing a comprehensive agreement (Williamson, 1975). Several issues are particularly noteworthy. First, real-world coordination difficulties between heterogeneous firms that possess differentiated products, dissimilar production processes, varied financial strategies and organizational structures make complete planning unattainable. Second, the implementation of an alliance between firms may require high monitoring costs that dissipate benefits. Third, the enforcement costs of maintaining a strategic alliance are often greater than anticipated. Finally, the incompleteness of alliance agreements may lead to costly court disputes between firms when unforseen outcomes occur.

We argue that the problems of contracting are so strong in the case of interfirm alliances, that the solutions of classic industrial economics (Scherer, 1980) are insufficient. Williamson (1985) and others (Hennart, 1982; Walker & Weber, 1987) provide a persuasive case that internalization (e.g., internal growth, acquisition, merger) is required to overcome the contractual hazards involved in interfirm agreements. Internalization is favored on the grounds of the incentive, adaptability, monitoring, reward-refining and dispute-settling capabilities of firms in comparison to contractual arrangements. The transaction cost argument, however, is based on the assumption that individual actors will be rationally self-seeking (Barney, 1990). This narrow view has been challenged by observers both within the field of organizational economics (Arrow, 1985) and within organization theory (Donaldson, 1990; Etzioni, 1988; Maitland, Bryson & Van de Ven, 1985).

Broadening the scope of assumed behavior has several beneficial consequences. First, it suggests new solutions for the problems of incomplete planning, monitoring costs, enforcement costs and dispute settlement that have benefits for both internal and external transactions. Second, it reunites the strategy field with the field of ethics. This paper outlines the components of a new contract approach that takes a more balanced view of human motivation. We argue that this approach is of general utility for broadening the economic perspective on strategic problems, but has special relevance for thinking about alliance as a strategic option.

The Classic Economics Approach

The economics literature emphasizes asset specificity (Klein, Crawford & Alchian, 1978; Walker & Weber, 1987; Williamson, 1985) uncertainty and measurement (Alchian & Demsetz, 1972; Barzel, 1982; Eisenhardt, 1985) as critical variables for predicting how a transaction will be governed. The reason these variables are "critical" ultimately reduces to the fact that some people behave opportunistically. According to Williamson: "opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (1985, p.47). The evolution and function of organizations are explained as an adaptive response to individual opportunism. This **neo-Hobbesian approach** permeates the spirit of agency theory (Eisenhardt, 1989; Jensen & Meckling, 1976), transaction cost theory (Williamson, 1985), self-enforcing agreements (Telser, 1980), game-theoretic reputation models (Camerer & Vepsalainen, 1988) and narrow economic definitions of corporate culture (Kreps, 1990).

A research agenda along the lines of the neo-Hobbesian approach is certainly relevant to strategic management as a scientific and pragmatic field. However, we in strategy need to keep in mind that in the business world, managers and workers do not regard transactions in a strictly neutral and instrumental way. The exchange process itself is an object of value. The "atmosphere" surrounding a transaction is important (Williamson, 1975). Behavior and the valuation of outcomes are not always seen in terms of selfish gain.

The neo-Hobbesian approach of organizational economics, with its emphasis on employee shirking and agent self-interest, leads to monitoring with excessive zeal. In strategic management, given the long association of our field with the "human relations" school (Dalton, 1959; Mayo, 1945), we should know better. It is a rudimentary management principle that excessive monitoring reduces productivity. Supplying a satisfying exchange relation should be made part of the strategic management agenda.

Cooperation can emerge among self-interested agents in an iterated prisoner's dilemma game (Axelrod, 1984). Especially when knowledge is imperfect (e.g., cost characteristics of rival firms are not known or the game has an indefinite end) cooperation also has been shown to be a stable outcome (Sen, 1987). We argue in this paper, however, that cooperative behavior can have a quite different explanation than that of the "calculative self-interested man". Egoistic incentives (reputation, reciprocity) are not necessary to create cooperation and altruism (Etzioni, 1988). Indeed, cooperation is often found in non-repeated games (Sen, 1987).

The evidence that people act unselfishly is ubiquitous. Long ago, Kropotkin (1924) pointed out the vast amount of mutual aid given in times of need. Etzioni (1988, pp. 52-66) documents a considerable body of experimental data that supports the existence of significant amounts of altruistic behavior. People mail back lost wallets, donate blood and bone marrow to strangers, support public television, and vote (despite the incentive to "free-ride"). Our experience supports a wider view of human behavior.

A Broadened Ethical Agenda

This paper proposes widening the basic economic assumptions of the strategy field. Basing the entire field of strategic management on an allegory of self-interest is an unreflective story, certainly not worth living in actual practice. In fact, it is quite ironic that overzealous admirers of the premise of self-interest have made Adam Smith its "guru". Smith (1790) actually champions benevolence, sympathy, and moral sentiments, though this emphasis tends to be lost in the writing of modern economists and business scholars (Coase, 1976; Viner, 1991). Sen (1987) notes that Smith, in fact, chastised Epicurus for trying to reduce everything to one motivation:

> By running up all the different virtues, too, to this one species of propriety, Epicurus indulged a propensity, which is natural to all men, but which philosophers in particular are apt to cultivate with a particular fondness, as the great means of displaying their ingenuity, -- the propensity to account for all appearances from as few principles as possible (Smith, 1790, p.474).

The same propensity is apparent in the modern economist. Solow notes that:

> There is an important element of sheer daredevil athleticism in the attachment of economists ... to the model of greed and rationality. ‘Show me anything, anything, and I will produce a model that derives it from greed and rationality.’[1] That can be a useful exercise until it gets in its own way" (1991, p.6).

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[1] Allison refers to this as the " ‘Rationality Theorem’: there exists no pattern of activity for which an imaginative analyst cannot write a large number of objective functions such that the pattern of activity maximizes each function" (1971, p.35).

There already appears to be a "paradigm shift" away from the position that apparently altruistic behavior must under closer scrutiny be revealed as reflecting egoistic motives (Piliavin & Charng, 1990). McPherson notes that: "What is odd ... is the desire to derive everything from self-interest as if that were a natural or necessary starting point. It is a peculiar feature of the sociology of the present-day economics profession that this odd ambition should be so prevalent" (1984, pp. 77-78). Drawing from a behavioral perspective, Etzioni (1988) reminds us that efforts to explain away altruism have been advanced since the ancient Greeks. It seems that each generation must answer the challenge anew. The importance of meeting this challenge is due to the fact that: **"The more people accept the neoclassical paradigm (of economists) as a guide for their behavior, the more the ability to sustain a market economy is undermined"** (Etzioni, 1988, p.250). If all people behaved in the calculative, self-seeking manner described in economic theory, the market economy would collapse (Arrow, 1974). Frank also argues that: "our beliefs about human nature help shape human nature itself. What we think about ourselves and our possibilities determines what we aspire to become; and it shapes what we teach our children, both at home and in the schools. Here the pernicious effects of the self-interest theory has been most disturbing" (1988, p. xi).

The movement toward new theories of strategic management that incorporate a moral dimension is imperative if a balanced worldview is to be maintained. We need a **new social contract approach** (Macneil, 1980) that is integrated into the much broader "conversation of mankind" (Habermas, 1979; Kahn, 1990; McCloskey, 1985; Oakeshott, 1962; Rorty, 1979). As the strategy field matures, we have additional capacity to join this conversation. As the economy globalizes and reaches more deeply into human life it is increasingly important that we do so.

Before considering the new social contract approach we pose the following question: If the attenuation of opportunism and the development of business ethics is at the heart of strategic management problems, then why is it not discussed more in our research and teaching? The answer is that one of the more damaging by-products of logical positivism and the empiricist movement is the assumption that ethical propositions lie outside the purview of science. For some time we have been in the position that social scientists may rationally discuss "means" but not "ends".

Pragmatic philosophers such as Emerson and Dewey soundly reject the Cartesian dualism of ends and means. Dewey (1929) suggests instead a means-ends continuum. We climb a peak only to find other peaks beyond us, no matter when we stop our Sisyphean climb, other peaks remain beyond. Adopting this perspective, the joy of strategic management must be experienced in the journey, not in the destination. Emerson wrote:

> Causes and effect, means and ends, seed and fruit cannot be severed; for the effect already blooms in the cause, the end preexists in the means, the fruit in the seed. (Quote from Bourgeois, 1984, p.594).

Without debating here whether it is proper for business school researchers to examine the more philosophical aspects of ethical theory, we do claim that conversation on "practical" business ethics, conversation that discusses the criteria which are used in evaluating management-environment interactions on some scale of goodness or badness is appropriate. It is apparent that many academics at present question whether ethics, even in this restricted sense, is a proper subject for strategic management. Our argument is that the ethical beliefs and the ethical practices of managers and workers are part of the data that must be considered in strategy research. What constitutes a "fair employer" is as much a variable of business as is the entropy measure of related diversification. Einstein noted that: "Ethical axioms are found and tested not very differently from the axioms of science. Truth is what stands the test of experience" (1956, p.115).

Positivist philosophers were wrong in asserting that all ethical propositions are meaningless (Sen, 1987) and their legacy has negatively affected strategy research. Every practical ethical problem of the business community is a problem in strategic management research. The strategic management researcher and the executive of a company each have an unavoidable role as "moralist" -- not merely as a describer of moral ideas and ideals, but as the creator and propagator of ideas and ideals, seeking not merely to describe but to change (Boulding, 1953; Schumacher, 1973).

The suppression of normative values may be deemed as "good" by some researchers, but this stance rests on a normative value as well. Myrdal (1970) argues against suppressing value judgments in the interests of science. He also rejects the sharp distinction made between positive and normative theory. Myrdal's solution to the concerns expressed by positivists and those they have influenced is to suggest that the scientist boldly declare value judgements at the outset of the analysis. Myrdal argues that:

> There is no other device for excluding biases in social sciences than to face the valuations and to introduce them as explicitly stated, specific, and sufficiently concretized value premises. ...Emotion and irrationality in science ... acquire their high potency precisely when valuations are kept suppressed or remain concealed in the so-called 'facts' (1944, pp. 1043-1044).

In short, the subject of strategy is intrinsically ethical, which makes research that sidesteps ethics problematic (Nelson, 1991).

Anyone who suggests that the best direction for strategic management is toward "disinterested social science" is advocating both an unattainable goal and an unprofitable journey. No such social science is humanly possible. Giddens notes that: "The theories and findings of the social sciences cannot be kept wholly separate from the universe of meaning and action which they are about" (1984, p. xxxiii). We can make our strategy conversation more rational by facing our valuations, not by evading them. To have <u>e</u>valuation, we cannot eliminate valuation.

A strategy researcher who is writing about important problems is writing about things which are of necessity highly charged with moral tone. Boulding (1953) contends that most influential writers in social science have been "moralists" (e.g., Adam Smith, Marx, Freud). They knew what they liked and especially what they didn't like, and they had no hesitation in giving their work in a persuasive tone. In this spirit, Freeman and Gilbert write that: "We must put ethics in its rightful place at the very center of discussions about corporate strategy" (1988, p.7).

In fact, the importance of ethics in strategy research is not new. Andrews suggested that corporate strategy includes "the kind of economic and human organization (the company) is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers and communities" (1980, p.18). A narrow economic view of managerial obligations (Friedman, 1962) is emphatically rejected by Andrews (1980). Strategic management must grapple not only with efficiency but also with "distributive justice"

(Freeman, 1984, p. 248) Andrews regards coming to terms with the morality of choice as perhaps the most strenuous undertaking in strategic management (1980, p.89).

Interfirm Cooperation and a New Social Contract

Long ago, Chester Barnard noted that: "Inspiration is necessary to inculcate a sense of unity, and to create common ideals. Emotion rather than intellectual acceptance is required" (1938, p.293). While Barnard (1938) concentrates primarily on morality and solidarity (or in his term "communion") within a corporation, the context of our paper is **inter**firm cooperation. With changes in the world economy we must recognize the detrimental effects of "us versus them" thinking that pervades the business world of competition and perceived zero-sum games. As Boulding notes: "Almost every organization ... exhibits two faces -- a smiling face which it turns toward its members and a frowning face which it turns to the world outside" (1953, p.10).

Who should be included in an executive's ethical community? Davis suggests that: "As competition becomes keener we need to remind ourselves and colleagues that management is not a gladiatorial contest, it is rather a process which tries to ensure that all involved -- customers, suppliers, sub-contractors, agents, employees, shareholders -- are satisfied" (1991, p.101). In his book The Greening of America, Reich similarly argues for nothing less than the goal of "species solidarity" (1971, p.419) where harmony is maintained between individual freedom and social consciousness. This is the humanist's perspective (Burrell & Morgan, 1979, p.315). From this perspective, lack of social consciousness can be shown to generate distinct economic loss as well as loss of essential human qualities.

The sociologist Durkheim (1933) anticipates Boulding's internal/external distinction by using the terms "mechanical solidarity" (solidarity of likes; **intra**firm) and "organic solidarity" (solidarity of unlikes; **inter**firm). Durkheim (1933) suggests that organic solidarity may ultimately be ungroundable, or based on the flimsiest of grounds and yet continues to exist. Similar themes may be found in philosophy (Rorty, 1989), economics (Arrow, 1974), law (Macneil, 1986) and organization theory (Ouchi, 1980).

Organic solidarity ultimately hangs by the narrow thread of "convergent expectations" (Arrow, 1974). These expectations have a moral flavor. The spirit of market capitalism is based on the invisible institutions of altruism, ethics, goodwill, morality, and trust (Arrow, 1974; Dore, 1983; Nielsen, 1989). These invisible institutions are fragile and yet profoundly vital. Durkheim writes: "Altruism is not ... an agreeable ornament in social life, but it will forever be its fundamental basis. How can we really dispense with it?" (1933, p.228).

Mitchell and Scott (1990) forcefully argue that the ethic of self-interested, outcome-oriented individualism is the cause of American decay. American leaders' lack of stewardship and management abuses of trust have had a devastating effect on American productivity. Productivity and trust are in fact inextricably linked (Ouchi, 1981), as forcefully explained by Arrow:

> Now trust has a very important pragmatic value, if nothing else. Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people's word. Unfortunately this is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought. Trust and similar values, loyalty, or truthtelling are examples of what an economist would call 'externalities'. They are goods, they are commodities; they have real practical value; they increase the efficiency of the system, enable you to produce more goods or more of whatever values you hold in high esteem. But they are not commodities, for which trade on the open market is technically possible or even meaningful (1974, p.23).

Organic solidarity can thus be consistent with high performance. Stakeholders should see corporate social responsibility as indicating management skill (Freeman, 1984). A firm has an investment in reputation, including the reputation for being socially responsible (Bowman & Haire, 1975; Gatewood & Carroll, 1991; Wood, 1991). Arrow's central insight is that there is a moral and social basis to our contractual institutions. An important corollary is that the individual can not be the central unit of economic analysis, even though it is imperative to sustain and nurture the individual morality that must inevitably confront collective immorality (Niebuhr, 1960).

The tensions between the claims of individual self-actualization and those of social consciousness permeate Macneil's book The New Social Contract. Such a contract is new, in the sense that it is neither the neoclassical contract of positive economics nor the contract of law. The contract is social in that this institution is society's basic socioeconomic tool. Finally, the idea of contract itself is important because it serves as the means of "projecting exchange into the future" (1980, p.5). As Macneil (1980, pp. 1-2) argues:

> The fundamental root, the base, of contract is society. Never has contract occurred without society; never will it occur without society; and never can its functioning be understood isolated from its **particular** society.

This is a fundamental shift in emphasis from current strategy thinking (Granovetter, 1985).

Macneil (1980) takes issue with agency theory's quest for a non-institutional[2], non-contextual, ahistorical explanation of contract, a criticism that has also been articulated in the management literature by Eisenhardt (1989). He then goes right for the heart of agency theory

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[2] It should be noted, however, that Ronald Coase has criticized modern "blackboard economics" for its non-institutional approach to economic problems. Coase argues that in modern economics: "Exchange takes place without any specification of its institutional setting. We have consumers without humanity, firms without organization, and even exchange without markets" (1988, p.3).

calling for the "death of principals". The principal-agent view is attacked on two fronts. First, the narrow view of 'economic man' is called into question because "everyone is a mix of selfish and social interests melding in kinship and other social patterns precluding agency-principal differentiation ..." (Macneil, 1980, p.80). Then, Macneil reminds us that the world of organizations is multifaceted:

> The constituency with the best claim in the Western world to being a principal (the stockholder) is far from it. We thus find ourselves in a world of agents of contractual relations, rather than agents of principals, relations organized in hierarchical, bureaucratic structures. The hierarchies are subject not to a single constituency brooding over them, but to many constituencies interpenetrating the hierarchy and bureaucracy at all levels (1980, p.79).

Macneil (1980) suggests that a world stakeholders and constituencies, all the complex economic actors of Adam Smith's Moral Sentiments provides a better story than the simplistic view of principal-agent problems in a world of individual self-interest. Once we relinquish a cardboard world of two dimensional "economic men", organic solidarity becomes vital. In a world of increased interdependence: "One flat tire on a busy superhighway and traffic can be blocked for miles; one defective bolt and an airline crashes; a gasoline shortage -- shortage, mind you, not stoppage -- and the whole national economy is thrown into turmoil" (Macneil, 1980, p.104).

In sum, a wider vision of economic life exists than that used by most strategy theorists. This view has been articulated by executives (Barnard, 1938), sociologists (Durkheim, 1933), economists (Arrow, 1974), organization theorists (Etzioni, 1988), and legal scholars (Macneil, 1980). It is a vision that may significantly broaden the strategy field. A dialogue can and should develop within business organizations and within business schools that encourages continuous and undistorted conversation on human solidarity and the building of interfirm cooperation.

The Link Between a New Social Contract and Contracting Problems

In the absence of opportunism, measurement problems and the contractual hazards of small-numbers bargaining (e.g., contracting when specialized assets are involved) would disappear. Consider the case of imperfect measurement of individual output. Alchian & Demsetz (1972) provide the example of two men loading freight onto a truck to illustrate the so-called "nonseparabilities" problem. In this example, the observation of the outcome (i.e., the amount of freight loaded at the end of the day) is not sufficient for ascertaining individual productivity. The "classical capitalist firm" and their "manager as monitor" are proposed as a solution to the problem of "shirking" or "free-riding" by individual workers whose output can not be individually identified. Clearly, the measurement problem is intertwined with problems of anticipated opportunism.

Second, consider the case where highly specialized assets are being exchanged in an on-going contractual relationship. Such exchanges involve a bilateral monopoly situation that is risky to undertake because each party runs the risk of being "held-up". Specifically, the amount that the other contractual party could theoretically appropriate is the difference between the first-best value and the second-best value of the asset -- the so-called "quasi-rent". The contractual problems between Fisher-Body and General Motors that ensued "once the dies were cast" are illustrative (Klein, Crawford, & Alchian, 1978). The eventual merger of Fisher-Body and

General Motors was due, in part, to the contractual incentives to opportunistically appropriate available "quasi-rents".

The solution to contractual hazards such as imperfect measurement and asset specificity boils down to the idea that the **firm can mitigate opportunism** through incentives, improved monitoring, increased auditing capabilities, and more-refined compensation and dispute-settling mechanisms. However, the firm reduces opportunism at a cost. The alternative strategy of transferring transactions out of the market into the firm reduces the costs but is attended by a loss of "high-powered" incentives (Williamson, 1985, chapter 6).

The question we now turn to is whether we can avoid bureaucratic costs and/or loss of incentives and still achieve interfirm cooperation? Our answer is that strategy research and business school education may contribute by developing multiple conceptual lenses with which to view contracts. One lens (a neo-Hobbesian approach) is to take "human nature as we know it" (Knight, 1921, p.270) and attempt to devise "institutions of capitalism" (Williamson, 1985) that will attenuate opportunistic behavior. Progress along these lines has been impressive and well documented (Mahoney, 1992).

An alternative lens (a new social contract approach) has been underemphasized in the strategy literature. This point of view assumes that "actors pursue two or more goals (utilities): (they) seek pleasure (and hence self-interest), and seek to abide by their moral commitments" (Etzioni, 1988, p.254). The emphasis of this new view is not on individual actions, however, but on the <u>social</u> setting. It is only in a social context that one actor can trust another to abide by moral commitments, a trust that leads to a satisfying exchange relationship.

Firms have been shown to be able to generate a social context that allows the relaxation of formal contracts without forfeiting the benefits of individual effort (Ouchi, 1980; 1981). The Western world seems less capable of providing a similarly supportive setting for the development of interfirm trust. Etzioni suggests that: "those who see virtue in competition must recognize that it is nothing but **contained** conflict, that it can be sustained only within a moral, societal, and government context which ensures that conflicts remain confined within prescribed limits" (1988, p.182). Etzioni goes on to explore the useful control offered by political power, but the question of achieving interfirm cooperation cannot depend primarily on third party institutions, particularly in a world of rapidly changing strategic decisions.

The establishment and reinforcement of a social context that can obtain the conflicts of self-interest appears to require negating several key assumptions of neo-Hobbesian economics. Once that is done, several conclusions about the aims of contracting are exactly the opposite made by agency theory.

To understand the social setting of an exchange relationship, both time and connection must be taken into account. In direct contradiction to the basic assumptions of classic economics, a new social contract approach requires the assumptions that:

1) one act has implications for other acts in the past and future, and

2) any given individual's acts have implications for many other individuals.

These assumptions are much more complicated than the assumption of systematic self-serving behavior. Decisions based on these assumptions will be more content specific; they will recognize the unique nature of the time and the actors involved in the exchange. The new social contract thus abandons the "faceless" (Foucault, 1977) agent and argues instead that human solidarity is created in a world in which respect for the individual is fragile and perishable (Rorty, 1989). While theory is thus made more complicated, these assumptions allow the development of a social context that in turn makes it more likely that individuals will make moral (socially serving) decisions.

The development of an alternative perspective has some important consequences. Rather than seeing non-separability as a problem, for example, connections among individuals become an intrinsic and necessary part of the social context that help generate moral behavior. Therefore the prescriptions to the strategist are exactly the opposite of those made by agency theorists. Opportunism from a new contract perspective is still possible, but it is more likely to be mitigated by establishing and emphasizing the links in time and space that bind people together. The bureaucratic actions required to establish and maintain these links will not have the recurring costs associated with incentives, monitoring, auditing, and dispute settling. Investments in the social context have benefits in the future, because they make it more likely that moral acts will be followed by moral acts (Etzioni, 1988).

Asian Examples

The most well known examples of interfirm alliances involve the Japanese Kiretsu and the Korean Chaebol. Observers have pointed out that the basis for these two kinds of interfirm cooperation are somewhat different; while the Kiretsu have their roots in long established trading companies, the Chaebol is more firmly rooted in family connections. In Chinese owned firms, a similar form of interfirm alliance is apparently more closely linked to individual entrepreneurs.

The benefits found within these associations are now legendary, and appear to have played a strong role in the phenomenal economic growth of the region:

> The network functions like a living organism, excelling at producing products quickly and cheaply. This is why Hong Kong has supplanted Italy as the world's top producer of fashion goods. It is how tiny Taiwanese companies run rings around giants in the personal-computer market (The Economist, November 16th, 1991).

Since these forms of alliance are tied to culture, it is foolish to think that Western firms can directly adopt them. The way they function is nevertheless instructive. First, they show there are quite different ways to establish a social context that control the human tendency to maximize self-gain. In each case, however, the formal contract plays a supporting rather than a primary role.

These Asian examples have been in place over a much longer timeframe than most Western companies contemplate. They also encompass a multifaceted context that is more complex than considered by most Western firms. The result of this framework is that any given exchange is only a small part of the total relationship, and the social context places a constraint on short-term, self-interested behavior. The basis for sustaining interfirm cooperation is social connection among actors that goes beyond legal connections, and recognition that this fabric exists over time.

We believe that competition contained by cooperation in this way is an especially viable strategic option, and one that is important for Western firms to master as we move toward a global economy. Agency theory, much of game theory and experimental economics, all expect immoral behavior. We recognize the human capacity for focusing exclusively on the kingdom of self, but also recognize the economic as well as human costs of this behavior. The social context regularly contains these human impulses; theory needs to catch up. A compelling reason to do so is Etzioni's (1988) argument that moral behavior supported by the social context is likely to beget further moral behavior.

Conclusion

We do not intend to argue in this paper that neoclassical economics should be abandoned. The demonstrated utility of its policy prescriptions will continue to be useful, especially in those cases where the social setting is weakest.

The inherent paradox, however, is that by operating with neo-Hobbesian assumptions to assure short-term gains, the firm may undermine the longer term benefit of alliance. Contracts that assume the other can not be trusted in the present are unlikely to lead to trust in the future. Constraining opportunism along the lines suggested by current contract theory will have continuing economic as well as human costs.

We need a new contract perspective, and we need to explore the way in which these precepts are incompatible with the dictates of neoclassical economics. The development of a new approach requires an integration of law (Fuller, 1969; Macneil, 1980), economics (Arrow, 1974), sociology (Durkheim, 1933; Granovetter, 1985) and organization theory (Eisenhardt, 1985; Etzioni, 1988; Ouchi, 1980). Developing an integrative, interdisciplinary approach to strategic management research is imperative if the field is to remain relevant to current and future managers. An interdisciplinary, pluralistic approach is also arguably the best way forward for the intellectual development of the academic field (Bowman, 1990; Jemison, 1981; Zajac, 1992).

The mechanism for systemic change that underlies business ethics research is the image of conversation both within and between corporations and business schools. That conversation should be unbounded, diverse, undistorted, continuous and at times argumentative (Kahn, 1990; Rorty, 1979). For example, in order to make ethics training effective in organizations, executives must insure that employees feel free to question directives when ethical problems are encountered (Harrington, 1991).

More broadly, MacIntyre (1984) argues that the language -- and therefore to some large degree the practice -- of morality today is in a state of grave disorder. The need for a Schumpeterian innovator in the language of morality is desperately needed in the conversation of business (mankind). Sometimes the innovation will be a success, other times undesirable and unforeseen consequences will emerge. The important thing is to recognize the possibility of very different perspectives on the most basic of human motives.

In an essay entitled "The Green Fields of the Mind", Bart Giamiati (Renaissance scholar, former President of Yale and former baseball commissioner) noted that "one of our deepest desires is to conserve something of purpose in a world of confusion". We suggest that the vision of a new social contract (Macneil, 1980) enables us to move beyond the neo-Hobbesian view of contract. With new ideas about the contractual relationship, a contemporary business school academic and a modern business executive may share similar dreams and hopes of developing and nurturing organic solidarity. In some instances we will continue to view strategy in the narrow economic sense of "a continuing search for rent" (Bowman, 1974, p.47) but in loftier moments we might be persuaded that strategy is also a continuing search for morally satisfying ways of interacting with other human beings.

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