Instrumental and Integrative Ethics in the Context of a Knowledge Management Policy

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Abstract: Governance structures and Knowledge Management Systems standards such as ISO 30401 and ISO 9001 ask for policies for knowledge management but leave open, how such a policy might be detailed. Depending on the preferences of owners, management or more extensive stakeholder groups, the assumptions about what is good and can therefore be considered as ethical, vary substantially. In the German literature, two authors represent two extremes of a wide spectrum of business ethics: Peter Ulrich and his Integrative Economic Ethics (Ulrich, 2007), positioning ethical behavior above all other corporate objectives on the one (politically left) side and Karl Homann with the Instrumental Ethic (Homann, 1999) and the general idea to maximize shareholder value on the other (politically right) side. Both European continental authors are distinct from the Anglo-American tradition of “business ethics” represented by Solomon (1994), Donaldson and Dunfee (1999) or Freemann (1984), who are, in general, less focused on principles, but suggest procedures that avoid risks for organizations (or their top managers) of being framed as unethical. Knowledge as an intangible asset and different to tangibles such as money, goods, or infrastructure, is usually not controlled by investors, but by employees of an organization and thus affects problems of agency (Jensen, 1976) or stewardship (Donaldson, 1982) in corporate governance. Questions of ownership, modes of sharing and transferring knowledge to development of new knowledge and strategies of utilizing knowledge to create value need to be answered in a way to attract the best knowledge professionals. The answers might help formulate a formally consistent policy for knowledge management that considers either position – or come up with a more balanced approach, which could be implemented with established governance structures or ethic management systems (Wieland, 2014). This paper discusses two qualitative positions of Homann and Ulrich in the context of knowledge management systems and knowledge as a corporate resource with the ambition to suggest recommendations to formulate a knowledge management policy that delivers on the formal requirements of ISO 30401.

Keywords: Knowledge management, Policy, Integritive ethic, Instrumental ethic, ISO 30401

1. Introduction - Collaboration Versus Competition in the Knowledge Economy

Deciding between two alternatives is the daily business, not only of top management, but of most knowledge professionals. Allocating time of experts is the one genuinely limited resource. Usually, it is easy to decide, thanks to clear preferences and priorities regarding e.g., minimizing costs, delivery time or maximizing quality. However, a dilemma situation is interesting. The prisoner’s dilemma and its implication on corporations was discussed extensively (March, 1962, Cyert and March, 1993 or Kreps, 1990) and delivered a standard solution. “Collaboration” turned out to be a risky but cost-minimizing strategy in the game. In the realities of a market economy and when pushed to extremes, collaboration shows negative consequences as it counters the market-inherent element of competition. It is not desired to collaborate and to create an oligopoly or monopoly situation, as this would leave consumers no choice, allow for excessive profits and is therefore in most developed markets regulated.

Behaving collaboratively or competitively is usually a consequence of values and beliefs of decisionmakers (Sen, 1977, Becker, 1996, Kahneman, 2003). It is therefore established good practice for most large and mature organizations to reflect on their values and publish a value statement at least internally. Smaller organizations who have not yet reached maturity usually have implicit values and depend on their leadership. On a local level this works fine. It becomes a challenge, once the orientation shifts from local to global with its huge diversity of values and behaviors, sometimes causing frictions and frustrations, potentially even substantial conflicts. From a business perspective, this adds costs or weakens competitiveness. It is therefore reasonable to reflect on the links between values, explicit policies, and corporate governance to minimize unnecessary costs.

Corporate values impact all functions of an organization. It is therefore not surprising that policies for quality management, risk management or corporate social responsibility, to name a few, refer to these foundations. The same request is outlined in the current standard for knowledge management (KM), ISO 30401 (2021). However, as a norm-paper suggesting a management system that is applicable in a general context, it remains vague how to do this. Most of the established literature supports culture development processes and provide advice on continuous monitoring but abstains from specific recommendations because of the individual nature of organizations (Kotter, 1992; Collins, 1996; Garvin, 2008, Schein, 2010; Edmonson 2018). It remains
interesting to investigate the fundamental beliefs and how concepts from business ethics might be useful for orientation when searching for a policy on KM.

The second section of this paper gives a short introduction to KM and the standards suggested for professional implementation of a KM system. It relates to the problems of agency theory and the two antagonistic positions of principal agent theory and stewardship theory. Special emphasis is given to the requirements for a KM policy. These foundations lead to a short introduction to some concepts of business ethics and the relationship to KM.

The third section advances the requirements of a KM policy and contrasts the positions of Karl Homann, the main proponent of instrumental ethics with the positions of Peter Ulrich and his integrative ethic. These two authors represent the outer limits of a wide spectrum of ideas on business ethics and are therefore attractive as points of reference when searching for a policy on KM. The fourth section summarizes the discussion and suggests elements of a KM policy, building on requirements from the standard ISO 30401, as well as organizational theory.

1.1 Marginal Costs and Knowledge Management

While KM is covered in detail by many authors (Easterby-Smith, et al, (2019); Becerra-Fernandez, et al, (2015); Malhotra, Y. (2018); Dierkes et al., (2001)), the most important and differentiating criterium relates to its intangible nature: knowledge can be shared and reproduced with very low costs. It has falling marginal costs in contrast to all tangible goods that usually show increasing marginal costs. This characteristic requires different management approaches, as the established routines to minimize (!) the use or application of knowledge simply do not yield the optimum results. Integrating “more knowledge, skill and experience” improves the service or product without substantially changing the costs of reproduction. Once the development is complete, only very limited additional costs emerge.

This attribute of knowledge challenges traditional categories such as ownership and financial evaluation, as the “cost” of knowledge per se technically goes down to zero (costs). While costs (for application or reproduction) go down, the potential value added is substantial, which creates opportunities for free riding.

In a knowledge economy, sharing knowledge for free is well-established as good practice in academia. Golden licenses of papers are options to cover the costs for services provided by publishers, while not charging the readers. One might question the “free” access to documented knowledge, such as papers in for-profit-journals, but compared to the costs of re-creating the work, the prices seem reasonable.

Different rules apply to “applied research” or to the phase of monetization in commercial enterprises, once new discoveries of science move to the innovation stage. Business models and management practices become relevant to create a product or service. This work is done by knowledge professionals, who need to decide. Their choice could be any combination of a) share the insight or b) keep it a secret as long as possible and reap the (excess) profits until competitors find similar solutions and the field of strategic competition moves to another domain. How these professionals might behave could be subject of a corporate policy on KM.

1.2 Knowledge Management Policy and Standards

With the wide availability of textbooks for KM and the increasing awareness in industry about the dynamic value adding contribution of knowledge-based assets as well as the emergence of standards for defining KM systems (ISO 30401, DIN SPEC 91443), KM became an established function in organizations.

1.2.1 Knowledge management standards

One of the first steps to develop a KM system is to identify key stakeholders. The usual list starts with employees or knowledge professionals as the people who have the knowledge and apply it for value generation. Additionally, customers are relevant, as they benefit from these activities and decide on allocating their financial resources, which in turn are crucial to do business. A third group relates to suppliers, whose products or services are used to support the organizations business model. Selecting the “correct” inputs is obviously the difficult element. Usually, organizations integrate third parties into their value creation – so they can be addressed as “collaboration partners”. The list could be extended, but all of them clearly have “stakes” in the value creation process. They contribute knowledge and sometimes claim some form of ownership on the final product. The legal term is copyright, which is often compensated, but certainly not always.

How do these stakeholders contribute to value creation? They could see themselves as agents in the tradition of principal agent theory (Jensen, 1976) or stewards in the tradition of stewardship theory (Donaldson and
According to the principal agent theory, both follow an opportunistic approach and maximize their benefits. Because the principal usually does not have the specialized knowledge of the agent, he must invest into clarifying expectations as well as into monitoring the performance as well as the output of the agent. This increase costs. The agent is interested in delivering performance to the principal, but only to the minimum requirements (Jensen 1976). From a KM perspective, this might lead to less-than-optimal performance, but thanks to strong competitive incentives, the effectiveness, and performance of the organization, the historic record of this approach seems to deliver.

Davis (1991) suggests an alternative approach by presenting a steward modeled by the caring attitude of airline personnel. The steward follows an intrinsic motivation to serve and to create a pleasant environment for passengers, observing technical limitations of the aircraft or external disturbance, such as turbulences. Transferred to a business context, a servant leader is free from pure egoistic ambitions, but cares about the well-being of an organization and its stakeholders. From a KM perspective, a steward would focus on collaboration, corporate culture, and a shared vision to accomplish corporate goals.

1.2.2 Requirements for a knowledge management policy

The following elements are part of most other standards, but nevertheless remain essential because they need clarification. The KM system shall consider the KM culture and leadership. It shall develop policies to support the actual management of knowledge. The norm is very general and suggests (quote): “Top management shall establish a KM policy that: ... (some elements intentionally left out) ... d) sets expectations for all workers with regard to use of the KM system and the cultivation of a culture that values knowledge; e) includes a commitment to continual improvement of the KM system; f) manages the balance between knowledge sharing and knowledge protection” (ISO 30401, section 4, 2021). While the requirements seem plausible, the details remain open and are insufficient for a regular knowledge professional to draft a policy. Depending on the generic type or orientation of managers, they could be positioned somewhere in the spectrum of “agent” (Jensen, 1976) or “steward” (Davis, 1991).

1.3 Short Outline Two Schools of Ethics

“Sense making in organizations” was the title of a book by Weick (1995), in which he brilliantly connects organization theory with decision making and strategic rationality. Almost 30 years later, rationality is sometimes said to be interpreted “alternatively” by the now “young” generation of millennials, becoming active as consumers, voters, as well as employees in knowledge-based organizations. The 18th Shell Youth Study reports: “Environmental and climate protection have become top issues of concern. ...Regarding the topic of fulfillment orientation, the meaning of one’s own conduct in professional life is the main priority. Central aspects also include opportunities to care for others and to do something useful for society.” (Shell, 2019). The established paradigm of profit maximization is challenged by a more comprehensive and balanced approach.

The assumptions about what is good, and can therefore be considered as ethical, vary substantially among age groups within one society – the Shell survey focuses on Germany – and among different countries. The implications on organizational decision making are well covered empirically by Hofstede (1984), or Ingelhart (1990). In the German literature, the concept of business ethics is established for more than five decades with two leading figures representing very different schools of thought.

1.3.1 Homann’s position on instrumental ethics

Karl Homann (1984) follows the tradition of Adam Smith (1759) and his interpretation of markets as institutions that create ethical decision making, because unethical behavior will not be tolerated by other market participants. It is, therefore, necessary to regulate markets in a way that “a good life” is supported. Homann assumes people to act with utilitarian interests towards improving their situation. It is unrealistic to assume that people or organizations accept disadvantages emerging from ethical behavior which is not displayed in a similar way by competing market participants. Therefore, markets need generally accepted frameworks that create a level playing field. For reasons of wordcount, this very short introduction to the thinking of Homann shall be sufficient, more elaborated presentations can be found in the literature.

1.3.2 The concept of Integrative Ethics by Peter Ulrich

Peter Ulrich has a very different approach to business ethics. Ulrich sees the dominance of markets critically and instead suggests focusing on the life-sustaining economy (Ulrich 2001). Like Homann, Ulrich sees two
dimensions of society – markets and a just society – but does not stop there. His essential claim is to integrate these two worlds into an integrated business ethics approach (Ulrich, 2008). Ulrich sees economy as created by humans and thus prioritizes human needs – a good life, synonymous with ethics – over market requirements. Integrated business ethics in the tradition of Ulrich prioritizes ethical behavior of organizations over economic profits or growth. Critics of this position refer to the implementation problem and economic survival of organizations fully subscribing to this approach, as they must bear with higher costs compared to competing organizations not following these high standards. While some highly educated and affluent consumers might follow similar ethical priorities (Shell, 2019), certainly not all can currently afford these choices. Consequently, Ulrich suggests a society with basic income.

These rather theory heavy continental perspectives differ from Anglo-American views on ethics (e.g., Donaldson, 1982, or Weiss, 2014), suggesting complying with legal and social requirements as well as to consider stakeholder interests, but – in general - not exceed into extreme positions. Applicability of social norms and pragmatic positioning has higher priority than discussing the ideal relationship of business and ethics (Palazzo, 2000).

2. Discussing Ethical Considerations for a Knowledge Management Policy

In the context of ISO 30401, a policy elaborates on the intentions and direction of an organization. A policy is drafted and formally expressed by the top management. For KM, the general policy (as suggested and structured in many ISO documents, such as the ISO 9001) of the organization provides the ground for more detailed elaboration. There is a direct link between organizational objectives, KM objectives, KM systems and the KM policy (ISO 30401, section 4, 2018).

ISO norms follow a typical structure that includes “leadership”. ISO 30401 is no exception, and consequently asks for a KM system to “ensure that the knowledge management policy and knowledge management objectives are established. It must be compatible and aligned with the strategic direction of the organization and evaluated accordingly (ISO 30401, section 5, 2018)

2.1 Organizational fit of the Policy

Section 5.2 a) of ISO 30401 requires that top management establishes a KM policy that is “appropriate to the purpose of the organization”. We interpret requirement 5.2.a in the context of existing policies in an organization with potential to deviate depending on size or complexity of an organization. A general orientation should connect the purpose of the organization to the context of knowledge and clarify this link.

- The physics and security requirements in a large energy- or production plant are usually stable and do not change within a quarter. It takes years to decades to qualify for senior job profiles for good reasons. Therefore, the organization benefits from low turnover and stability.
- The essentials of a digital technology build on formal sciences but change dramatically in a short time. Thus, the organization might be more oriented towards fast adaptation to new technologies and – in several ways – adjust their knowledge base, that is: hire and fire employees.

There should be no conflict with business ethics, as both, Ulrich and Homann, as well as other authors agree that regulation should fit with the overall objectives. This does not, however, cover the ethicality of these objectives (profit maximization versus supporting public welfare as two opposing poles).

2.2 Organizational Framework for the Policy

Section 5.2 b) of ISO 30401 requires that top management establishes a knowledge management policy that “provides a framework and guiding principles for setting, reviewing and achieving knowledge management objectives” (ISO, 2021).

As discussed above, frameworks for KM are available (WMF, (2007); Dierkes (2001); Snowden (2007)). Within such a KM-framework, the KM objectives need to be articulated. The objective of KM in a business aligned context is to effectively apply knowledge to value generation. This is different to e.g., the discovery priority in a university context or the focus on transfer in the context of schooling or training.

In more specific terms, objectives of KM could be:

- Contributing to the competitive advantage by leveraging state-of-the-art knowledge.
- Improved decision making, based on relevant and accurate knowledge in all levels of the organization.
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- Increased efficiency by avoiding duplication of efforts and empowering knowledge professionals to access the corporate knowledge base effectively.
- Supporting innovation and learning of all knowledge professionals on all levels of the organization.
- And preventing knowledge loss by smart retention, low turnover, and soft retirement strategies.
- Establishing collaboration and teamwork to encourage a culture of knowledge sharing and collaboration.

The general framework of KM seems to be aligned with business ethics. While there might be varying ideas on competition on one side and collaboration on the other, the general idea of effective flow and application of knowledge to value creation does not seem disputed in western economies. There is, however, a different interpretation possible, when focusing on transcendent priorities – which are not discussed here.

2.3 Commitment to Satisfy Regulations

Section 5.2 c) of ISO 30401 requires that top management establishes a KM policy that “includes a commitment to satisfy applicable regulatory and other requirements” (ISO, 2021).

While a policy document may be a great reference, it cannot secure commitment. A statement affirming the readiness to “satisfy … regulations” might serve the purpose of a symbol in very formal organizations and help to communicate the importance, top management assigns to this topic.

“The management of (organization) commits to satisfy the requirements of ISO 30401 for a knowledge management system and DIN SPEC 91443 for detailing knowledge management guidelines.”

From the perspective of business ethics, this is not problematic, but clarifies the priorities and helps as a reference in the case of conflicts.

2.4 Setting Expectations for Knowledge Professionals

Section 5.2 d) of ISO 30401 requires that top management establishes a KM policy that “sets expectations for all workers with regard to use of the knowledge management system and the cultivation of a culture that values knowledge” (ISO, 2021).

This element of a policy document has highest relevance for the implementation and daily application of KM, as it clarifies the expectations. These expectations have an impact on how knowledge professionals behave in an organization. An example outline of this expectation could be the following:

- “Maintaining high ethical standards is fundamental to our organization. We expect all knowledge professionals to conduct themselves with integrity, honesty, and responsible behavior in all KM activities.
- To support the high ethical standards, we actively support a stewardship attitude. A steward shows a high service orientation, highest professional standards, and long-term customer orientation. Knowledge sharing as well as providing honest feedback constitute servant leadership, which becomes visible internally as well as externally.”

From the perspective of business ethics, here a clear orientation is suggested with the emphasis on “stewardship”. Obviously, there are alternative approaches, such as a focus on hierarchy and expertise, division of labor or the idea of committees to search for consensus. Corporate culture and leadership will have a strong impact on the selection, but here would be the place to make the expectations explicit.

2.5 Commitment to Continual Improvement

Section 5.2 e) of ISO 30401 requires that top management establishes a KM policy that “includes a commitment to continual improvement of the knowledge management system” (ISO, 2021).

Like in section 5.2.c), the commitment is difficult to secure. However, a written statement that emphasizes the priority of “continual improvement of the KM system” could be crucial, once the system is implemented, but is no longer aligned with the requirements of internal or external stakeholders. How to use artificial intelligence is only one example of technology change, which might make it necessary to adjust the KM system. A simple statement could be the following:

“Continuous improvement is ingrained in our culture. We encourage all knowledge professionals to actively contribute to the identification of improvement opportunities, driving innovation, and enhancing our operational performance.”
From the perspective of business ethics, improvement is usually not disputed if the changes adhere to the established standards and values and do not disadvantage stakeholders. The utilitarian view of Homann might accept shifting priorities and even laying off some experts if they could be replaced by automation or artificial intelligence. Ulrich would suggest finding less drastic alternatives but is essentially not opposed to corporate adjustments. His preference would be, of course, to avoid a crisis by generally committing to a long-term perspective that provides for a plan B in times of crisis.

2.6 Balance Knowledge Sharing and Protection

Section 5.2 f) of ISO 30401 requires that top management establishes a KM policy that “manages the balance between knowledge sharing and knowledge protection” (ISO, 2021).

This final requirement seems to allow for the widest interpretation, as it connects to ownership of knowledge. Ownership is considered as the best way to avoid waste and depletion of a resource. While it is obvious that exclusive knowledge secures competitive advantage for those controlling these insights, it is equally obvious that “general access to knowledge” supports innovation and development of society and mankind. A statement to address this challenge could be the following:

“Effective knowledge management and asset ownership are vital for sustained long term success. We highlight the distinction between personal knowledge and company knowledge. Knowledge professionals are the sole owner of their knowledge as a result of private and professional learning and development efforts.

We emphasize that knowledge created or acquired during employment is considered company knowledge, including innovations, methodologies, and processes. We emphasize the importance of managing knowledge from external suppliers, protecting our valuable intellectual property, exploring opportunities to monetize our knowledge assets, and promoting systematic knowledge reuse and automation.”

From the perspective of business ethics, this clarification is essential, as it relates to the freedom of people, which in turn is seen as a fundamental human right. The problem here is that it is very difficult to unlearn and not to apply knowledge acquired in an organization once the work contract is terminated. The theoretical positions of the scholars differ in this dimension only marginally. Both scholars support the idea of ownership. While Homan stresses the importance of adaptation and accepts the implications of limited work contracts, he is open to contractual consent to outline even drastic implications, such as the ban to work for a competitor or, even more drastic, in the same industry. Ulrich would suggest offering a life-time employment and finding ways to avoid separation but still being open to changes initiated by the professionals, seeking alternatives for private reasons (e.g., marriage).

From a theoretical point of view - and this is the most interesting part here - the historic element of scarcity is not applicable to knowledge. It can be shared, reproduced, applied – usually with no higher costs than necessary to compensate for time. The marginal costs of knowledge are coming closer to zero with each repetition of use and application, while the benefits of its application multiply. This attribute of knowledge suggests that the scarcity-related management procedures are obsolete and do not apply to knowledge professionals. Consequently, the idea of “assets” needs to be reviewed. Knowledge per se is no longer of value, but the application of if it is very valuable. This implication on value creation suggests that knowledge is used as excessively as possible and, additionally, is given away immediately and for free, as only the application and use generate value. The implementations on corporate governance, corporate citizenship and value generation are substantial.

3. Summary and Recommendation

Drafting a KM policy benefit from a reference to corporate values. While a superficial agreement on values seems easy to accomplish, the limitations of the “assumptions” become visible when deciding in situations of multiple constraints. In times of conflict between knowledge professionals (internal conflict) or with suppliers and customers (external conflicts), an explicit policy serves as a reference and gives orientation.

A KM policy benefits from consistency with the other instruments of corporate governance, such as transparency and accountability to stakeholders (external focus) as well as management instruments, such as bonus programs to accomplish corporate objectives or individual targets (competence development and career development).
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Ethical dilemmas emerge from fundamental positions regarding ownership of assets or allowing access to strategically relevant critical knowledge. The causes can be found in the spectrum of priorities and loyalties of a knowledge professional e.g., to their field and discipline, company, or a department in the organization, or to a community of practitioners working on a complex problem. The desire to “resolve” this problem might interfere with legitimate interests of other parties involved and thus cause conflicts of interest.

Recognition and attention as critical currencies among knowledge professionals can be granted or refused and will have consequences in the repeated game of collaboration. While knowledge per se is abundant and not limited, the time and energies (motivation) of professionals are limited and constitute constraints.

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