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## INTEGRATING MANAGERIAL WISDOM, THE COMMON GOOD APPROACH AND ORGANIZATIONAL JUSTICE IN LONG-TERM-PERFORMANCE ANALYSIS

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**INTEGRATING MANAGERIAL WISDOM,  
THE COMMON GOOD APPROACH AND ORGANIZATIONAL JUSTICE  
IN LONG-TERM-PERFORMANCE ANALYSIS. EMPIRICAL EVIDENCE FROM AUSTRIA**

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## ABSTRACT

It is well documented that business failures very often involve not only poor business models or misjudgments of the markets, but also substantial and well-documented ethical failures. In this paper, we propose that if a manager or an owner-manager of an SME generally seeks to perform business actions by applying practical wisdom, a character trait which morally enhances the practice of decision-making, he will lead his company according to a determined ethical or moral orientation which we call the common good approach of management. It is particularly of interest to understand how practical wisdom and the orientation towards the common good will also have a positive effect on the perceived organizational justice and on long-term corporate performance.

Keywords: practical wisdom, common good of the firm, organizational justice, long-term performance analysis

## INTRODUCTION & RESEARCH GAP

In the aftermath of an economic and financial crisis that also marked the beginning of an ongoing discussion about the future of our modern free market system, we have been witnessing a growing interest for the ethical dimension of economic decision-making. Through the so-called "separation thesis" (Freeman, 1994; Melé, 2010) this dimension had been theoretically isolated from the managerial and economic decision-making-process. "Rational decisions", according to this thesis, would only have to suffice a calculative assessment of efficiency i.e. using a cost-benefit analysis. Rationality would be defined in mere economic terms i.e. as a mere instrumental or technical rationality. However, as Thomas et al (2004) pointed out, business failures very often involve not only poor business models or misjudgments of the markets, but also substantial and well-documented ethical failures. This goes in line with Carroll (1987), who states that "moral issues in management are not isolated and distinct from traditional business decision making but right smack in the middle of it". According to Trevino (1986), ethical issues always play a role in managerial decision-making, especially when uncertainty is high. Hence, sound and effective decision making in management implies a strong sense of responsibility as well as an awareness of the social and moral consequences of every business action.

As Melé (2011) and others (Fontrodona et al., 2010) argue, ethics are embedded in management in the following ways: first, through decision-making, second, through the ideas that drive the practice of management; and third, through the moral character of the manager himself. Following Carroll (1987) and Paine (1996) moral competence is an essential managerial competence.

In this paper, we propose that if a manager or an owner-manager of an SME generally seeks to perform business actions by applying practical wisdom, a character trait which morally enhances the practice of decision-making, he will lead his company according to a determined ethical or moral orientation which we call the common good approach of management. In other words, practical wisdom will influence his understanding of the nature of the firm as a community with a concrete responsibility towards the contribution to the common good of the constituents of the firm and of society.

The conceptual relationship between the consideration of a firm as a real community of persons (or "humanistic conception") and the ethical or moral character of management has been studied by some

authors (Melé, 2012; Fontrodona & Sison, 2006). However, an empirical analysis is still lacking. It is particularly of interest to understand how practical wisdom and the orientation towards the common good will also have a positive effect on the perceived organizational justice and on long-term corporate performance. The aim of this research is to develop a comprehensive model which integrates the above described element of an ethical management and leadership style and which shows their influence on the long-term performance of a company.

## MODEL DEVELOPMENT & HYPOTHESES

In this section, we develop our research model, as shown in figure 1.

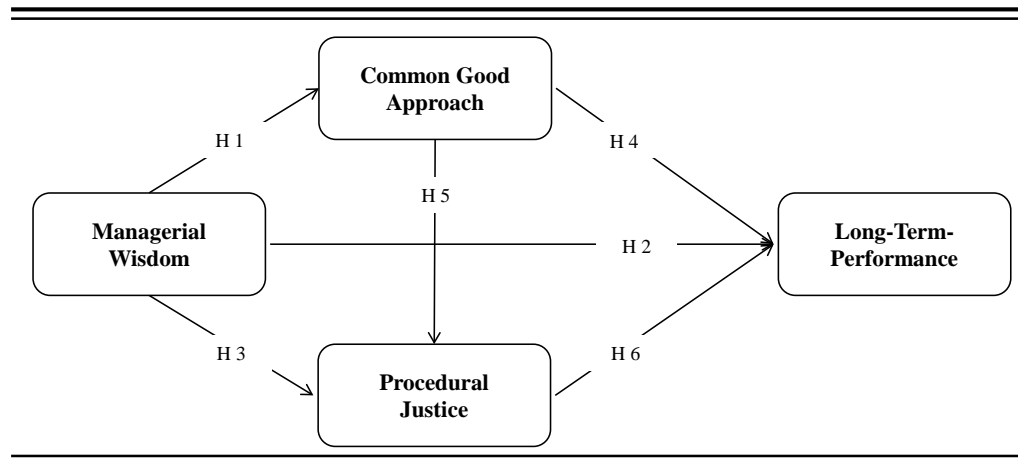


Figure 1: Conceptual framework

In a first step, we define and discuss the main concepts and deduce our underlying hypotheses.

### Practical wisdom / managerial wisdom

Practical wisdom is defined here following the classical Aristotelian understanding as proposed by several authors (Solomon, 1992; Pellegrino & Thomasma, 1993; Morris 1997; Peterson & Seligman, 2004; Moberg, 2007; Melé, 2010). We will use the term managerial wisdom as a synonym, as we especially apply this concept to the realm of managerial decision-making. In this sense it is a trait of character which enhances practical rationality. By this we understand the human capacity to discern and act according to what is identified as a real good to be achieved; the so-called moral sense. A “real good” in what concerns us here, relates to an action of a manager that is able to contribute to human flourishing (i.e. as it enhances the moral character of the acting person) and also to serve the purpose of the firm, considered under what we call the “common good approach of the firm”. As Melé (2009, p. 75) defines it: “Practical rationality is the intellectual capacity of the human person to direct conduct towards the most appropriate aim by the use of the right means (called *prudence* or *phronesis* in classical nomenclature). It differs from the concept of rationality mainly used in economics, which refers to an action’s evaluation in mere terms of its effectiveness or efficiency for obtaining a given goal.” The latter kind of reasoning is most appropriately called “instrumental or calculative rationality”. Instrumental rationality in this sense mainly looks at the technical (economic) aspect of the action, whereas practical rationality considers all relevant dimensions of the action as it looks for the consequences of the action, not only in economic terms, but also regarding the influence of a decision in the acting person – i.e. the development of her moral character, as well as concerning the effect on the acting person’s social environment.

Practical rationality is a trait that leads to better resolving situations with conflicting spontaneous motivations, e.g. when having to decide between a short term economic profit and fulfilling obligations that stem from contractual or even moral obligations with suppliers or employees. As Salomon states, the importance of *phronesis* or *prudence* “has to do with the inevitable conflicts of both concerns and principles that concern every ethical dilemma” (Solomon 1992, p. 329). An agent whose habitual acts are

guided by this *extended form* of rationality, which we call practical rationality, i.e. a reflective subject who evaluates her decisions taking into account all or at least more than one of the relevant dimensions mentioned, develops the strength or skill (virtue) called “practical wisdom”.

Peterson and Seligman (2004), who studied the classical virtues from a psychological point of view, consider wisdom a character strength in which cognition is salient i.e. includes positive traits related to the acquisition and use of information in the service of the good or well-being of oneself and that of others. The authors give an insightful overview of the development of the concept from ancient philosophy to today (p. 183). For ancient thinkers, wisdom was understood as erudition, also as the ability of judging correctly in matters relating to life and conduct, as well as an understanding of what was true, meaningful, and lasting. The emphasis on wisdom as good judgment in the service of effective living is to be found already in writings from the ancient Near East (Greeks, Hebrews and Egyptians) and ancient Middle Eastern Civilization (Sumerians, Babylonians, Canaanites and Phoenicians). A more modern approach, as in that of Descartes, views wisdom as the counterpoint to scientific knowledge: Knowledge involved the accumulation of facts, whereas wisdom involved the organization and interpretation of those facts.

Robert Sternberg (1998) relates the term wisdom with practical intelligence by stating that it is “wisdom deployed for social ends”. He states that “wisdom is involved when practical intelligence is applied to maximizing not just one's own or someone else's self-interest, but rather a balance of various self-interests (intrapersonal) with the interests of others (interpersonal) and of other aspects of the context in which one lives (extrapersonal), such as one's city or country or environment or even God” (Sternberg, 1998, p. 354). This circumscribed definition of wisdom helps us to understand in which way this character strength can support managerial decision-making. As Sternberg writes that there are various environments which constitute the interests of the wise person, thus, we conclude that wisdom can also refer to life in a company or in the workplace.

As Melé (2010) states, practical wisdom helps the decision maker to determine how an action will contribute to the human good in each particular situation: “Practical wisdom, helped by respect and benevolence for persons and a real contribution to the common good, not only determines what alternatives are not ethically acceptable but also helps to solve dilemmas and above all, identifies which alternatives can bring about the greater human good” (p. 643). As the author states, the greater possible good also includes the economic viability of the firm, which is why practical wisdom is part of an “integral rationality”. This active desire leads the decision-maker to search for advice, to take into account the circumstances and expected consequences of an action and to avoid situations of doubt.

With Moberg (2007) and Beabout (2012) we consider that practical wisdom is required in various contexts that arise in business, such as information uncertainties and ambiguities, execution binds, and moral dilemmas. They also see it as a requirement for ethical leadership, especially in order to solve some difficult predicaments.

Peterson and Seligman (2004) distinguish practical wisdom from the virtue of prudence, although in the classical Aristotelian thinking, these character traits are strongly related. The authors define prudence as “a cognitive orientation to the personal future, a form of practical reasoning and self-management that helps to achieve the individual's long term goals effectively. Prudent individuals show a farsighted and deliberative concern for the consequences of their actions and decisions, successfully resist impulses and other choices that satisfy shorter term goals at the expense of longer term ones, have a flexible and moderate approach to life, and strive for balance among their goals and ends” (p. 478). As an attribute of the prudent persons, they claim that these show “a style of thinking about everyday life choices that is reflective, deliberate, and practical”. The authors base their description of prudence on the Aristotelian *phronesis*, which includes our concept of practical wisdom. Therefore, we will also use the attributes of Peterson and Seligman's prudence in the definition of the concept of practical wisdom which we use in this paper.

Summarizing, managerial wisdom is defined in this paper as the character trait which leads the decision-maker in a company to apply practical intelligence “to maximizing not just one's own or someone else's self-interest, but rather a balance of various self-interests (intrapersonal) with the interests of others (interpersonal) and of other aspects of the context in which one lives (extrapersonal)” (Sternberg 1998),

as well as to make decisions regarding practical issues “with a farsighted and deliberative concern for the consequences of these actions and decisions”. A wise manager thinks about her everyday choices in a reflective, deliberate and practical manner, i.e. taking into account past experiences and trying to foresee future consequences. In order to measure this character strength, we want to find out which consequences arise when managers present this reflective and deliberate approach to decision making, i.e. when they behave in ways which foster managerial wisdom (Melé, 2009, p. 208).

Melé (2009, p. 208) recognizes that managerial wisdom can inspire leadership, as it contributes to generate trust in those who show this character trait, and it also entails being a dependable leader, someone able to take creative decisions with a sense of ethics, in short a wise manager who will motivate employees and peers to turn into followers. As leadership-styles have an enormous impact on the organization in terms of organizational behavior, we assume the same effect for leaders with managerial wisdom. As our study concentrates on SME which are mainly embossed by owners and/or CEOs, we propose that those people have an enormous impact on the management orientation of the organization. They will lead the company in a way which seeks to contribute to a good which is in the interest of the constituents of the firm or stakeholders, i.e. they will understand their managerial actions as actions oriented towards the achievement of a common good (Melé, 2012; Fontrodona & Sison, 2006; Canals, 2010).

Thus we pose as first hypothesis:

H1: Managerial wisdom has a positive effect on the common good approach.

There is strong empirical evidence, that leadership styles are strongly interrelated with firm performance (Howell & Frost, 1989; Matzler et al., 2008). As managerial wisdom and leadership style are interrelated constructs, we therefore propose:

H2: Managerial wisdom has a positive performance effect.

We also propose:

H3: Managerial wisdom has a positive influence on organizational justice.

### **The orientation of management towards a common good**

We consider that if a manager develops managerial wisdom, he will at least implicitly have the conviction that the firm is a social organization formed by free individuals who actively pursue a common goal without excluding their own private goals (Fontrodona & Sison, 2006; Melé 2002; Melé 2009). A common goal unites the organization and motivates its members; it can be defined also as the mission of the firm, and it describes its contribution to the common good of society. We thus define a firm according to the proposal made by Melé (2012): “A simple way to express what a business enterprise is, is simply that the business enterprise is a community of persons based on cooperative activity to provide goods and services in an efficient, competitive and profitable way” (p. 97). This definition is a valid alternative to other definitions that put mere profit-maximization in the center of every business venture (Canals, 2010; Fontrodona & Sison, 2006).

As Melé (2002 and 2009) states, the concept of common good refers to goods shared by those who are united in some way or belong to a community. A community is hereby generally understood as an enduring unity of persons involved in a common action for a shared purpose, although personal motivations can vary (Melé, 2009, p. 160). People who join a corporation find themselves, once hired, members of a social collective (Solomon 1994).

The common work of entrepreneur and employees to offer goods and services to customers is in line with the concept of common good we use in this paper. The concept of the common good appears precisely upon considering the social dimension of the person and how people live and act in a collaborative manner, establishing more or less lasting ties.

As Melé (2009) further writes, “the specific determination of what contributes to the common good in each community – e.g. a firm – depends on circumstances, and it must be discovered with practical wisdom and also, frequently, through sincere social dialogue. Within a community, the final decision on particular aspects of the common good is the job of those who rule (guide or run) the community (e.g. the managers), but it must always respect human dignity and human rights” (p. 85). Koslowski (2005) claims that the obligation to realize the common good of the institution is the fiduciary duty of the manager towards the firm he works for. “The fiduciary duty defines the duties of the manager as the duty to good faith, the duty to loyalty towards the firm, the duty of care and prudence, and the duty of disclosure” (p. 306).

Management is thus oriented by a common good approach if it seeks to develop and achieve the common goal of all constituencies of the firm (entrepreneur, employees, suppliers, customers, etc.) through decision-making. Wise managers will try to pursue this common objective “in an efficient, competitive and profitable way” (Melé 2012). Hence, they will also be interested in a positive long term performance. Therefore, we propose:

H4: The common good approach has a positive effect on performance.

And

H5: The common good approach has a positive effect on organizational justice.

### **Organizational justice**

The practice of managerial wisdom and the common good approach are very strongly related with taking into consideration the effects of business actions in the relational aspect of the firm, i.e. in the relationships between management and the employees and between employees themselves. As Melé (2012, p. 98) states: “Another ethical requirement which generally converges with good managerial practice is to provide communication on and participation in matters which affect people’s life. People tend to want to know what is happening in organizations in which they are involved. Communication gives knowledge of the whole (situation) and fosters a sense of belonging”. We thus consider organizational justice as an important indicator of the orientation of the manager of a company towards the achievement of the common good of the firm.

Organizational justice can be described as the perceived fairness in a firm setting (Ellis, Reus, & Lamont, 2009). Colquitt and colleagues (2001) examined, in a meta-analysis, four different types of justice: procedural justice, distributive justice, informational justice, and interpersonal justice (Collquitt, Colon, Wesson, Porter, & Ng, 2001). As the last three types of justice are more likely to be judged by employees, the focus of our study is on procedural justice. We take procedural justice as an indicator for organizational justice. Ellis et al (2009) have defined procedural justice as the extent to which the main decision-maker in a company (i.e. the owner or CEO) makes an effort to assure fairness of procedures and processes in decision-making in the form of allowing involvement in decision-making, informing about important decisions or providing for an ability to control procedures.

Lastly, studies have given clear empirical evidence that justice has a positive effect on performance (e.g. Ellis, Reus, & Lamont, 2009). Thus, we propose:

H6: Procedural justice influences long term performance positively.

## **METHODOLOGY**

### **Sample & Data**

We used internet survey methodology for data collection which was conducted in April 2012. In our survey we focused on Austrian SME. Our sample was constructed randomly. As respondents we selected top managers and entrepreneurs as they tend to be most knowledgeable about the surveyed issues. Our survey instrument was pre-tested with a two-step pre-test in February and March (Churchill, 1995).

Concerning the design and structure of our questionnaire, we followed the recommendations of Dillman (2000). We sent out our online survey to 2.000 companies. After two reminder Emails, we gathered 109 completed questionnaires. Non-response bias was tested by comparing our different survey waves (Armstrong & Overton, 1977). The results of the Kruskal-Wallis test indicate that non-response bias is not a serious concern for our date. Furthermore we tested item response bias (Berdie & Anderson, 1976). The maximum number of missing values was 7.3% and all missing values were missing at random. Thus we conclude that item response bias is not a problem.

### **Measurement development**

In developing the measurement models we follow the advice of Diller (2006) and do not just create new measurement models, but rather rely on already-existing and well tested ones (to some extent modified (Churchill & Peter, 1984)).

**Long-term performance** The dependent variable in our study is long-term performance. The assessment of performance is a widely discussed topic in management research. Its measurement reaches from stock market and accounting-based measures to the assessment of key informants. Stock market-based measures are usually one-dimensional measures that capture a short period of time. King and colleagues (2004) state, that “potentially relevant dimensions of firm performance” are ignored. Nonetheless, as our study focuses on Austrian SME which are usually not noticed on the stock market, those performance measures cannot be taken into consideration. The same problem occurs with accounting-based measures as SME have less stringent requirements with regards to financial disclosures. Therefore, we chose a survey based assessment. By now, several studies give clear empirical evidence which shows that managerial ratings correlate significantly with objective ones (Datta, 1991; Homburg & Bucerius, 2005). To display the long-term performance, we chose a borrowed modified measurement model from the M&A literature, as it tries to capture performance 3-5 years after the initial transaction. Wirtz and Becker (2006) developed their performance measure with two dimensions, each operationalized with four items.

**Common good approach** For assessing the common good approach, we chose the items – identified by Melé (2009, p. 164) – that express how a firm can become a contributor to the common good. Respondents had to specify if these items reflected the mission statement of their companies.

**Managerial wisdom** For the assessment of practical or managerial wisdom, we rely on those behaviors which foster managerial wisdom, i.e. those behaviors which show a reflective and deliberate approach to decision making (Melé 2009, p. 208). Melé (2009) suggests eight behaviors that foster managerial wisdom.

**Procedural justice** For assessing procedural justice, we modified the measurement model from Moorman (1991). Therefore, justice is measured with seven items.

As control variables we use the age of the company, education and age of the respondent, sex, proximity to ownership, and company size.

## **RESULTS**

### **Descriptive data & research approach**

In table one, we show the descriptive data of our survey research. In detail, we display the position of the respondents, company size (measured with the number of employees and turnover) and the age of the company.

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<b>Descriptive Data</b>	
<b>Current</b>	
<b>Position</b>	<b>in %</b>
CEO	55

Owner	30		
Upper Management	15		
<b>Employees</b>	<b>in %</b>	<b>Turnover</b>	<b>in %</b>
< 50	96,3	< 10 Mio. €	96,3
50-99	1,8	10 - 19 Mio. €	1,8
100-149	1,8	> 20 Mio. €	1,8

Table 1: Descriptive data

For analyzing our research model, we used structural equation modeling. We applied a variance based approach (with SmartPLS (Ringle, Wende, & Will, 2005)) instead of a covariance based approach for four reasons: (1) PLS is better suited for more complex models (Haenlein & Kaplan, 2004), (2) sample size requirements are lower (Fornell & Bookstein, 1982; Haenlein & Kaplan, 2004; Tenenhaus, Vinzi, Chatelin, & Lauro, 2005), (3) we only use reflective measurement models and, therefore the accuracy of the results can be compared with the accuracy of covariance based approaches (Vilares, Almeida, & Coelho, 2010), (4) our objective is to explain long-term performance, keeping in mind that PLS has a high predictive character. For assessing the second order construct of long-term performance, we chose the hierarchical components approach suggested by Lohmöller (1989) instead of the often used two-step mean-value based approach (Agarwal & Karhanna, 2000) for the reason that this approach employs two independent approximations. The underlying assumptions (Fornell & Yi, 1992) of this approach can lead to confusing results (Burt, 1973). Before analyzing our research model in two steps (assessment of measurement models and the assessment of the structural model), following the guidelines of Hulland (1999) and the guidelines for second order constructs developed by Wetzels and colleagues (Wetzels, Odekerken-Schröder, & van Oppen, 2009), we tested our data for a potential common method bias.

### Common method bias

As we used self-reported data in our study, a potential common method bias remains for several reasons (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). For assessing a potential common method bias, we employed two different tests. Firstly, we applied the Harman's single factor test (Podsakoff & Organ, 1986) whose results indicate that common method bias is not a serious concern for our study. Secondly, we applied the stricter ad hoc approach suggested by Podsakoff and colleagues (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We followed the guidelines developed by Liang and colleagues (Liang, Saraf, Hu, & Xue, 2007). The ratio of substantive variance to method variance is XXX to XXX (for details see Appendix A). Thus, we conclude that common method bias is not a serious concern in our data.

### Assessing the measurement models

For assessing the structural model, we follow the two-step approach suggested by Chin (1998). That means we start with the assessment of the first and second order constructs. Our proposed measurement model on managerial wisdom was not reliable and valid, as loadings of most indicators were too low. The results of an exploratory factor analysis showed that there are – from a numerical perspective – two different dimensions of managerial wisdom. This separation seems to be valuable with regards to content, as one dimension determines the “awareness of future consequences” and the other dimension describes “evolved know how”. Both constructs show factor loadings above the recommended value of 0.7 except one item with a loading of 0.639. We follow the argumentation of Hulland, who states that in new research fields loadings are accepted to be lower than the recommended value (Hulland, 1999). As all factors are at a 0.01 level, significant, indicator reliability is given. Both Cronbach's Alpha as well as Composite Reliability values – indicators for construct reliability – are clearly above the recommended value of 0.6 (Bagozzi & Yi, 1988). Both quality criteria can be seen as alternatives even though composite reliability is more robust due to the fact that it is independent from the amount of indicators (Fornell & Larcker, 1981).

To sum up, it can be stated that construct reliability is for both “managerial wisdom” dimensions at a satisfactory level. After the deletion of two items in our “common good approach” construct and one item

in our measurement model of “justice”, indicator reliability as well as construct reliability is given for all first and second order constructs. Average Variance Extracted (AVE), as indicator for the variance explained of indicator and construct, should be greater than 0.5 (50%) to guarantee a sufficient convergent validity (Hulland, 1999). All AVE values of our constructs are above this recommended value, thus convergent validity can be taken for granted. For assessing discriminant validity we employed an analysis on indicator level (cross loadings) and on construct level (Fornell-Larcker criterion). As the following table shows, all indicators have higher loadings with their proposed construct than with any other construct. Thus, discriminant validity on indicator level can be taken for granted.

<b>Crossloadings</b>						
<b>Constructs Indicators</b>	<b>Common Good</b>	<b>Justice</b>	<b>Future consequences</b>	<b>Evolved know-how</b>	<b>Performance-objective</b>	<b>Performance-subjective</b>
CG2	<b>0,6628</b>	0,4333	0,252	0,3659	0,3286	0,3223
CG3	<b>0,8038</b>	0,5113	0,3084	0,5495	0,114	0,1632
CG5	<b>0,7249</b>	0,3926	0,3471	0,3883	0,3522	0,3258
CG6	<b>0,8084</b>	0,5809	0,2968	0,4097	0,1481	0,2334
Jus2	0,5353	<b>0,8233</b>	0,3893	0,538	0,0589	0,0939
Jus3	0,5614	<b>0,8836</b>	0,2293	0,3637	0,2078	0,1554
Jus4	0,5018	<b>0,7854</b>	0,182	0,3844	0,1199	0,222
MW1	0,2999	0,1597	<b>0,6482</b>	0,368	0,0277	0,034
MW4	0,2962	0,2984	<b>0,7537</b>	0,3653	0,07	0,1522
MW5	0,2956	0,2462	<b>0,8124</b>	0,3821	0,0763	-0,0138
MW2	0,5056	0,4195	0,3524	<b>0,7327</b>	0,0911	0,0772
MW6	0,4676	0,3804	0,3355	<b>0,847</b>	0,0783	0,0712
MW7	0,2894	0,3673	0,4723	<b>0,6762</b>	0,1718	0,0221
PO1	0,2818	0,222	0,0934	0,2466	<b>0,8904</b>	0,574
PO2	0,2057	0,0379	-0,0008	0,1043	<b>0,9082</b>	0,6051
PO3	0,2802	0,1929	0,0883	0,0696	<b>0,755</b>	0,5679
PO4	0,2768	0,0888	0,096	0,069	<b>0,8502</b>	0,7486
PS1	0,2823	0,1459	0,071	0,0392	0,656	<b>0,8591</b>
PS2	0,3696	0,1062	0,0071	0,0253	0,3895	<b>0,7481</b>
PS3	0,1833	0,1822	0,1019	0,0942	0,7198	<b>0,7581</b>
PS4	0,2997	0,1633	0,0793	0,0922	0,5794	<b>0,8758</b>

Table 2: Crossloadings

The results of the test on discriminant validity on construct level are shown in the next table. As all AVE values are higher than the squared correlations among the constructs, the Fornell-Larcker criterion is fulfilled.

<b>Fornell-Larcker-Criterion</b>							
<b>AVE</b>		<b>Common Good</b>	<b>Justice</b>	<b>Future consequences</b>	<b>Evolved know-how</b>	<b>Performance-objective</b>	<b>Performance-subjective</b>
AVE: .566	Common Good	1					
AVE: .692	Justice	.412	1				
AVE: .570	Future consequence	.328	.268	1			

AVE: .549	Evolved know-how	.160	.105	.251	1		
AVE: .728	Performance-objective	.093	.024	.021	.006	1	
AVE: .660	Performance-subjective	.177	.035	.006	.007	.541	1

Table 3: Fornell-Larcker-Criterion

The next table gives an overview of the quality criteria of all measurement models. As all measurement models are valid and reliable, we start with the evaluation of the structural model in the next section.

Quality Assessment of Measurement Models								
Measurement model		Indicator reliability				Construct reliability		Average variance extracted
Construct	Item	Loading	Loading <sup>2</sup>	T-Value	Significance	Cronbach's Alpha	Composite Reliability	AVE
Evolved know-how	MW_2	.648	.420	4.931	***	.623	.784	.549
	MW_6	.754	.569	7.967	***			
	MW_7	.812	.660	10.610	***			
Awareness of future consequences	MW_1	.733	.537	11.638	***	.587	.798	.570
	MW_4	.847	.717	13.603	***			
	MW5	.676	.457	7.748	***			
Justice	Jus_2	.823	.677	23.089	***	.776	.870	.692
	Jus_3	.884	.781	27.461	***			
	Jus_4	.785	.616	12.443	***			
Common Good	CG_2	.663	.440	7.446	***	.741	.870	.566
	CG_3	.804	.646	14.494	***			
	CG_5	.725	.526	8.946	***			
	CG_6	.808	.652	16.373	***			
Performance-objective	OBJ_1	.890	.792	33.556	***	.873	.914	.728
	OBJ_2	.908	.824	44.528	***			
	OBJ_3	.755	.570	12.245	***			
	OBJ_4	.860	.740	26.546	***			
Performance-subjective	SUB_1	.859	.738	28.135	***	.827	.885	.660
	SUB_2	.748	.560	12.126	***			
	SUB_3	.758	.575	17.905	***			
	SUB_4	.876	.767	39.705	***			
<b>Quality assessment</b>		<b>&gt;0.7</b>	<b>&gt;0.5</b>	<b>&gt;1.93=*; &gt;2.576=**; &gt;3.291=***</b>		<b>&gt;0.6</b>	<b>&gt;0.6</b>	<b>&gt;0.5</b>

Table 4: Quality Assessment

### Assessing the structural model

The PLS estimation results are shown in the next figure. As the  $R^2$  value of our dependent variable long term performance shows, a moderate amount of variance could be explained by our model (.148). The Stone Geisser criterion ( $Q^2$ ) shows values above 0. This indicates that the empirical data reconstructs our proposed research model in a substantive way.

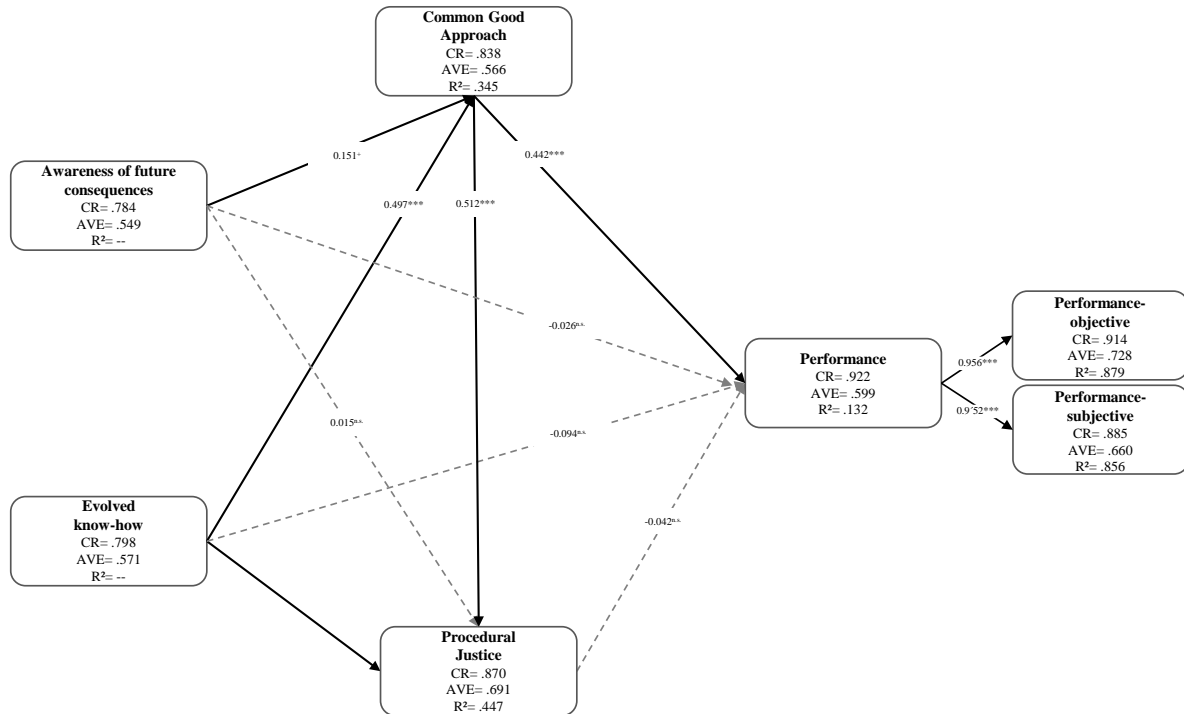


Figure 2: Results of the structural model

The Goodness of Fit index (GoF) is a relevant indicator for assessing the model fit. The GoF value of .428 indicates a good model fit (Wetzels, Odekerken-Schröder, & van Oppen, 2009).

### Hypothesis testing

Our data shows strong empirical support for hypothesis 1. The awareness of future consequences by the decision maker has a positive and significant influence on the common good approach. The path coefficient is .151, and at a 10% level, significant. The effect size  $f^2$  is, with a value of .024, rather low. The hypothesis of the second dimension of managerial wisdom, from “evolved know how” to the common good approach can be confirmed too. The path is .497<sup>\*\*\*</sup> and the effect size  $f^2$  is .281 and therefore, rather strong.<sup>1</sup> For our second hypothesis, from both managerial wisdom dimensions on long term performance, we found no empirical support, both paths are not significant. Interestingly, when going a step further, we found a full mediation effect (Baron & Kenny, 1986). With an isolated perspective, the hypothesis could be confirmed, but when integrating the latent variable “common good approach” in our model, the direct effects lose enormously statistical power. Thus, we propose that there is no direct effect of managerial wisdom on long term performance, but an indirect effect via the common good approach. Our hypothesis three must be partially rejected.

The path from awareness of future consequences to organizational justice is not significant, while the path from evolved know how is, at a ten percent level, significant. The path coefficient is, with .213<sup>+</sup>

<sup>1</sup>\*\*\* means  $p < 0.001$ ; \*\* means  $p < 0.01$ ; \* means  $p < 0.05$ ; + means  $p < 0.1$

positive and the effect size  $f^2$ , with .063, medium. Thus, evolved know how has a positive effect on organizational justice. For hypothesis 4 we found strong empirical evidence. The path is positive and significant .442\*, the effect size is .115 and can be evaluated as medium. Hence, justice mainly depends on the common good approach. Hypothesis 5 is confirmed with a path coefficient of .512\*\*\* and a strong effect size  $f^2$  with a value of .280. Hypothesis 6 must be rejected, as the path is not significant.

To sum it up, hypothesis 1, 3, 4 and 5 could be confirmed. For hypothesis 6 we found no empirical evidence at all. For hypothesis 2 we found no direct effect, but a full mediation effect on long term performance via the common good approach (Baron & Kenny, 1986).

Hypothesis	Description	$\beta$	T-Value	Significance	$f^2$	
H1	Awareness of future consequences --> Common good	.151	1.794	+	.024	confirmed
H2	Awareness of future consequences --> Long term performance	-.026	.227	n.s.	.001	not confirmed
H3	Awareness of future consequences --> Justice	.009	.106	n.s.	.000	not confirmed
H4	Evolved know-how --> Common Good	.497	3.945	***	.281	confirmed
H5	Evolved know-how --> Long term performance	-.098	.835	n.s.	.000	not confirmed
H6	Evolved know-how --> Justice	.219	1.781	+	.063	confirmed
H7	Common good --> Long term performance	.442	2.462	*	.115	confirmed
H8	Common good --> Justice	.512	5.162	***	.280	confirmed
H9	Justice --> Long term performance	-.042	.390	n.s.	.000	not confirmed
		0.02			0.02	
		weak			weak	
		0,15			0,15	
		medium			medium	
		0.35			0.35	
		strong			strong	
					n.a.	= not applicable

Table 5: Hypothesis testing

The control variables have, to some extent, influence on our model. Company age positively influences the awareness of future consequences (path coefficient equals .307\*). The education of the surveyed person influences evolved know how positively (.185<sup>+</sup>) but the estimation of procedural justice negatively (-.157<sup>+</sup>). Sex influences the awareness of future consequences (.295\*) and evolved know how (.129<sup>+</sup>) positively, that means, female respondents are more aware of both dimensions. Interestingly, they rate justice more negatively (-.277\*\*\*). The age of the respondent has a positive impact on evolved know how (.219<sup>+</sup>) but no effect on awareness of future consequences. We found no empirical evidence that proximity to ownership has influence on our research model. Company size (measured with turnover and number of employees) influences the awareness of future consequences positively (.125<sup>+</sup>) while there are no other significant effects on other constructs.

## DISCUSSION

### Limitations

**Regarding content** Melé (2010) also suggests that practical wisdom not only considers the cognitive aspects which we stressed in the present paper, but also the explicit application of universal ethical principles (as personal values) in the decision-making process. However, whereas there is plenty of evidence for personal values as drivers of managerial behavior (Hemingway, 2005), the influence of the cognitive aspect (i.e. a reflective and deliberative acquisition and use of information) is still under-explored. The addition of universal principles as factors influencing decision-making would certainly add complexity to our model.

Also, the measurement models we chose are for empirical quantitative testing theoretically under-developed. Therefore, it could be useful for future research to develop better measurement models. A relevant source for process guidelines could be Churchill's article on developing scales in marketing research.

**Regarding methodology** From our research we expect to gain a deeper understanding of the underlying relationships. Our cross sectional survey was to some extent exploratory, and we focused mainly on the behavior of owner-managers and managers in Austrian SMEs. We consider that by extending our sample by region or company size, further elements can be added to the model, e.g. the influence of legal culture, field of activity or industry, corporate governance structure, etc. on the practice of managerial wisdom and on the development of the common good approach.

A second limitation is the correlation of the number of observations and the statistical power. Even though it is mentioned that PLS is applicable even for very small sample sizes, and our sample is bigger than the minimum required size (Chin, 1998), we have to state that the statistical power as well as some hypotheses could be verified with a larger sample.

A third limitation is the perspective of our study. We follow a company's owner-manager visual angle and ignore the other stakeholder's perspective. Thus, we have to rely on the self-assessment of CEO's and owners. Even though our performance data can be compared with the Austrian development, we cannot exclude a potential for Key Informant Bias.

### Contribution and implications

Managerial wisdom was found to be a complex and diversified construct. The latent variable we proposed first had to be separated into two different constructs, namely "awareness of future consequences" and "evolved know how", which each describe different aspects of the practice of managerial wisdom, especially according to the specific use of acquired knowledge and its application for foreseeing future consequences. Wisdom as a single construct may not be definable as such in a model and it most probably is not represented here completely with all its relevant dimensions. The difficulty to do so is probably one of the reasons why there is a lack of empirical studies in management literature about it, whereas some indicators of wisdom have been already thoroughly explored in psychological studies (Peterson & Seligman, 2004). In order to capture the relevance of managerial wisdom for decision-making, it may be necessary to develop higher order constructs which each capture the distinct dimensions of this character trait, concretely in a business setting. It is also interesting to note that the single elements of wisdom we identified each have a different amount of influence on "the common good approach" and on "organizational justice", which is also a fact that should be explored more deeply in further research.

The cognitive dimensions of managerial wisdom "awareness of future consequences" and "evolved know how" influence the management's orientation towards the common good approach, which is a reason why it is interesting to understand how these traits can be developed for future business leaders. According to Peterson & Seligman (2004, p. 191), early engagement in relevant life and career tasks can have important long-term effects on wisdom, i.e. one primarily learns how to take important managerial decisions by being put in a position where it is necessary to take them in order to advance. Also, the

occupational setting and the social position can help to enhance practical wisdom. We see evidence for this statement in our empirical data as there is a positive relationship between age, education and evolved know how.

Lastly, we have evidence that the practice of managerial wisdom does not have a direct positive effect on the long term performance, but an indirect effect via the common good approach. This means that managers who see themselves embedded in a community - and explicitly define their company goal (mission statement) as being a collaborative contribution of the firm constituents to the common good of society - will apply their experience and knowledge in order to provide this common good "in an efficient, competitive and profitable way". This strengthens our claim that wisdom is involved when practical intelligence is applied to maximize not just one's self-interest but rather a balance of various (self-) interests. It is striking to see that wisdom has to be related to the consecution of the common good in order to have a positive influence on corporate performance. The implications of this relationship need to be further researched.

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