Greed, Phronesis, and the Social Contract: An Ethical Analysis of Opportunism in Multi-Tiered Distribution Channels

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Abstract

This paper examines the ethical dilemma of opportunism within multi-tiered distribution channels, a problem defined as a manifestation of the vice of greed. Grounded in professional experience at an international education company, this analysis frames the core conflict as the tension between a dominant partner's (e.g., manufacturer's) self-interested desire for short-term profit and their implicit duty of partnership and good faith to their channel members. This dilemma is analyzed through the four core ethical theories of the course: Consequentialism, Deontology, Virtue Ethics, and Social Contract Theory, as well as the five Dominican Values (Partnership, Justice, Truth, Compassion, and Community). Three viable options are evaluated: (1) Aggressive Opportunism, (2) Full Reversal, and (3) a Hybrid Model. This paper concludes that the Hybrid Model, grounded in the Aristotelian concept of Practical Wisdom (Phronesis), is the "best" decision. This option is the only one that is both ethically justifiable and practically sustainable, as it re-negotiates the channel's social contract, upholds the duties of Justice and Partnership, and cultivates the virtues of Truth and Compassion, ensuring the long-term flourishing (*eudaimonia*) of the entire community.

1. Statement of the Problem

1.1 Articulation of the Ethical Issue

The ethical dilemma at the center of this research is opportunism within multi-tiered distribution channels, a specific manifestation of the vice of greed. This issue is drawn from direct professional experience at Global Bridge Associates, an international education and homestay company. In that context, outside recruitment agents, acting as intermediaries, were observed prioritizing short-term commissions over long-term partnerships. This opportunistic behavior—such as inflating fees, misrepresenting program details, or pressuring families into rushed decisions—violates the implicit social contract of trust that binds the international education network. The result undermines confidence among schools, parents, and partners who rely on transparency and fairness.

This paper analyzes this specific tension as a systemic problem in supply chain management. Opportunism is defined in academic literature as a channel member acting in a "self-interested or deceptive manner to gain an advantage over another channel partner". This behavior is a direct expression of greed, which is defined as an "insatiable desire for excessive profits... at the expense of ethical considerations".
This ethical dilemma is not hypothetical; it is an inevitable conflict driven by modern macro-economic and technological forces. The rise of e-commerce, mass digitization, and shifts in post-pandemic consumer behavior have made "disintermediation"—the

removal of intermediaries—a central strategic goal for many firms. Manufacturers now have the technological means to bypass their partners and sell directly to consumers (D2C), creating an immediate and profound tension between the new potential for profit and the long-standing ethical duties owed to their channel partners. This analysis, therefore, examines the practical, ethical framework a leader must use to navigate this unavoidable conflict.

The core issue is channel conflict, which arises when members who are expected to cooperate instead engage in behavior detrimental to the network's stability. This conflict manifests in two primary forms:

1. **Vertical Conflict:** A dominant partner (e.g., a manufacturer) bypasses its established distributors and retailers to sell directly to consumers (D2C), often at a lower price, thereby competing with its own partners.
2. **Horizontal Conflict:** One channel partner (e.g., a distributor) "dumps" products in another partner's exclusive territory at a reduced price to steal market share, violating established agreements.

1.2 Conflicting Values, Interests, and Obligations

The dilemma is rooted in a direct conflict between competing values and interests.

- **Conflicting Values:** The pursuit of individual profit maximization (greed) is in direct opposition to the Dominican Values of Community and Partnership. The course defines Partnership as an "honest, open, and respectful commitment to a shared purpose", while Community requires "fostering right relationships". Opportunism violates both.

- **Conflicting Interests:** The manufacturer's interest in increasing its short-term margins and market control is in direct conflict with the retailer's or distributor's interest in market exclusivity, stable pricing, and long-term financial viability.

- **Conflicting Obligations:** The core conflict is between a channel member's self-interested desire for profit and their implicit or explicit duty of partnership and good faith to the other members of the channel.

This analysis is strongly supported by Dr. Maxwell's research, which defines conflict as a state resulting from "differences in goals, values, attitudes, needs, beliefs, perceptions, expectations and interests". The manufacturer's goal of short-term D2C profit is a direct misalignment with the distributor's need for market stability. This misalignment creates "barriers to collaboration" and highlights "misconceptions regarding roles," which Dr. Maxwell identifies as key sources of professional conflict.

1.3 Stakeholders and What is at Stake

The rubric requires the identification of all pertinent stakeholders and what is at stake for each. The stakeholders in this dilemma include:

- The Dominant Partner (e.g., The Manufacturer)
- Primary ("Tier 1") Distributors/Wholesalers
- Secondary ("Tier 2") Retailers
- End-Consumers
- Employees of all firms involved

The stakes are high for all parties:

- **For Subordinate Partners (Retailers/Distributors):** The primary risk is the loss of financial viability. They face immediate market share erosion, price wars, and the potential for bankruptcy.

- **For the Dominant Partner (Manufacturer):** The stakes are long-term. While short-term profit may increase, the manufacturer risks the permanent loss of a loyal distribution network, severe damage to its brand reputation, and the total erosion of trust, making future partnerships difficult.

- **For Employees (of Partners):** Beyond the firms themselves, a critical ethical stake is held by the employees of the distributor and retail firms. An aggressive D2C strategy would lead to mass layoffs, inflicting severe economic and psychological harm on thousands of workers and their families who have no voice in the manufacturer's decision. This raises a profound question of Compassion, defined as a "deep and motivating awareness of the suffering of others." An ethical decision must account for this "invisible and powerless" stakeholder group.

- **For End-Consumers:** The consumer's stake is also complex. In the short term, they may benefit from the lower prices of an aggressive D2C model. However, in the long term, the resulting collapse of the retail network would destroy local service, support, and product availability, leading to a "less healthy" market with diminished consumer choice. This raises the question of whether consumers have an ethical "right" to the lowest price if the "greatest good" is undermined in the process.

- **For the System:** The ultimate risk is the collapse of the "network governance mechanism". Supply chains function as social contracts; when that contract is breached by a powerful actor, the system reverts to a chaotic "state of nature," leading to systemic instability, reduced product availability, and diminished consumer choice. Research highlights that this "problem of asymmetry," where one partner can subjugate others, leads to "perceived unfairness" and "distributive injustice," which ultimately destabilizes the entire channel.

1.4 Foundational Research in Channel Conflict

The assertion that opportunism is the central problem is strongly supported by foundational research in channel management. This dilemma is not merely a breach of etiquette but a violation of the perceived justice that holds a channel together. Research on "perceived unfairness" in channel relationships demonstrates that the *perception* of injustice (even more than the objective financial impact) is the primary driver of retaliatory, trust-destroying behavior from subordinate partners. When a manufacturer acts opportunistically, it is perceived as a profound violation of distributive and procedural justice. This perception of unfairness directly triggers reciprocal opportunism from partners, who will then seek to undermine the manufacturer, withhold information, and degrade service, leading to a downward spiral of conflict.

Furthermore, research on "buyer opportunism" defines the act as a "self-interested or deceptive manner to gain an advantage." This academic definition directly links the behavior to our ethical analysis. The "deceptive manner" is a direct violation of the Dominican value of Truth, and the "self-interested" motive is the very definition of the vice of greed. This body of research confirms that opportunism is not a "shrewd business tactic" but a recognized, trust-destroying behavior that creates quantifiable negative outcomes, grounding our ethical dilemma in established management theory.

2. Potential Options and Their Implications

The ethical decision-making framework requires an examination of viable options and their implications. For the dominant manufacturer facing the decision to pursue a direct-to-consumer (D2C) strategy, three primary options present themselves.

Option 1: Aggressive Opportunism (The "Greed" Model)

- **Description:** The manufacturer fully embraces an opportunistic, self-interested strategy. This option involves launching a robust D2C e-commerce platform that competes directly with its existing retail partners. The manufacturer would withhold information about this strategy, maintain no channel price parity (i.e., actively undercut its partners on price), and offer exclusive online products. The explicit goal is to maximize the manufacturer's own short-term profit margins at the expense of its channel partners.

- **Ethical Analysis:**

  - **Consequentialism (Utilitarianism):** This theory judges the morality of an action "solely based on its outcomes", aiming for the "greatest good for the greatest number" (Fullerton, n.d.). From a *narrow* and purely agent-focused perspective, this option appears "good" for the manufacturer. However, a true utilitarian calculation must be impartial and "sum the total sum of well-being" (Bykvist, n.d.) for all stakeholders. The significant financial harm to thousands of retail partners, the subsequent employee layoffs across the channel, and the erosion of consumer trust create a massive net negative utility. This collective harm vastly outweighs the manufacturer's isolated, short-term profit gain. Therefore, the action is morally wrong from a utilitarian perspective.

- **Deontology & Justice:** This theory judges the *action itself*, not the outcome. The *maxim* guiding this action is: "I will act deceptively toward my partners to gain a financial advantage." This maxim fails the Categorical Imperative; it cannot be willed as a "universal law" without leading to the logical collapse of all systems of partnership, which are inherently built on trust (Martin et al., 2021). Furthermore, this action is a textbook violation of the principle of respect for persons, as it treats channel partners *merely as a means* to an end (market establishment) rather than as "ends in themselves" (Martin et al., 2021). This action is inherently unjust, as it leverages a position of power to inflict "distributive injustice" on the "invisible and powerless" (the smaller retailers) for the benefit of the powerful. This is a direct violation of the Dominican value of Justice.
- **Virtue Ethics & Vice:** This agent-centered theory (Melé, 2023) frames this action as a clear expression of the vice of greed. The manufacturer is failing to cultivate the virtues of honesty, fairness, or integrity, instead demonstrating a "cleverness" that is divorced from moral good (Halverson, n.d.).
- **Dominican Values:** This option is a catastrophic failure across all five values. It violates Truth (through deception), Compassion (callous disregard

for the harm caused to partners and their employees), Justice (unfair distribution of outcomes), Partnership (a direct breach of commitment), and Community (the active destruction of "right relationships").

- **Implications:** This decision has catastrophic, cascading consequences for all stakeholders. For *subordinate partners*, it means financial ruin. For *employees of partner firms*, it means mass layoffs, as their employers are rendered uncompetitive. This is a clear and direct violation of the value of Compassion. For *end-consumers*, it creates a short-term benefit (low prices) but a long-term harm as the market destabilizes, local service disappears, and consumer choice is ultimately reduced. For the *dominant partner*, it is a pyrrhic victory; the short-term profit gain is purchased at the cost of permanent brand damage and the creation of a "state of nature" (Neidleman, 2012) where no partner will trust the manufacturer again, crippling future growth.

Option 2: Full Reversal (The "Deontological Purity" Model)

- **Description:** The manufacturer, recognizing the market trend toward D2C, concludes that it is ethically indefensible to compete with its partners. The manufacturer publicly recommits to its channel partners and issues a formal, permanent proclamation that it will *never* sell directly to consumers. It dismantles any existing e-commerce operations and funnels all sales, inquiries, and web traffic exclusively through its established distributor and retailer network.

- **Ethical Analysis:**
    - **Deontology & Partnership:** This option is the most "pure" from a deontological perspective. It perfectly fulfills the moral *duty* of promise-keeping (the implicit channel contract). It is the ultimate expression of the Dominican value of Partnership, defined as an "honest, open, and respectful commitment to a shared purpose". The manufacturer refuses to treat its partners as a means to an end. However, this is precisely the kind of "rigid" or "pure" deontology that critics (e.g., Timmermann, 2014) find problematic. Its absolutism in adhering to a past rule ignores the disastrous real-world *consequences* of its own failure, demonstrating the fragmentation that Melé (2023) critiques.
    - **Consequentialism (Utilitarianism):** The consequences of this action are complex. It creates immense "good" for the *partners* by ensuring their stability. However, it may create a long-term *negative* utility for the manufacturer, who becomes uncompetitive against rivals who *do* adopt D2C models. This, in turn, would harm the manufacturer's employees and shareholders. It also creates a potential negative for *consumers*, who are denied the choice and convenience of buying directly. It is not clear that this option produces the "greatest good for the greatest number" in the long run.
    - **Virtue Ethics:** While this action demonstrates the virtue of *loyalty*, it may fail

the test of Practical Wisdom (Phronesis). A wise leader (*phronimos*) must "deliberate well" about the *total* good, which includes the survival and flourishing of their own organization (Halverson, n.d.). An action that leads to one's own failure in the name of purity may not be "wise".

- **Implications:** The short-term result is a massive increase in channel loyalty and trust. The long-term implication, however, is the risk of irreversible obsolescence. While *partners* are saved, *end-consumers* are actively harmed by being denied the market choices and convenience that competitors will offer. This creates a new *net negative utility* for this key stakeholder group. For the *manufacturer's own employees and shareholders*, this path guarantees long-term failure, as the company "ethically" cedes the future of digital retail to its competitors. This ultimately fails to serve the common good of the *entire* community.

Option 3: The Hybrid Model (The "Phronesis" Model)

- **Description:** The manufacturer decides to enter the D2C market, but does so by framing the channel as a Community rather than a zero-sum competition. This hybrid model is built on the Dominican values of Truth and Partnership. The manufacturer's strategy includes:

    1. **Truth/Transparency:** Proactively communicating the new strategy to partners *before* launch, framing it as a necessary adaptation to market

realities.

2. **Partnership/Compensation:** Implementing a "shared revenue" or "commission" model. If a D2C sale is made in a retailer's exclusive territory, that retailer receives a percentage of the revenue.
3. **Community/Integration:** Using the D2C platform to *support* partners, not replace them (e.g., "buy online, pick up in-store," or using the manufacturer's website to drive traffic to local retailers for service and support).
4. **Justice/Fairness:** Maintaining strict price parity. The D2C site will *not* be allowed to undercut the retail partners, ensuring a level playing field.

- **Ethical Analysis:**
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    - **Virtue Ethics & Phronesis:** This option is the clearest expression of Virtue Ethics (Cullity, 1999). It rejects the vice of greed (Option 1). Instead, it embodies Practical Wisdom (Phronesis) (Halverson, n.d.). A "clever" leader might act opportunistically (Option 1), but a "wise" leader (*phronimos*) deliberates on the *long-term good of the entire community* (Halverson, n.d.). This leader *practices* the virtues of Truth (by being transparent) and Compassion (by showing a "deep and motivating awareness of the suffering" that Option 1 would cause and actively mitigating it). This is the only path that allows the manufacturer to achieve *eudaimonia* (flourishing) in the long term, as that flourishing is inextricably linked to the health of its partners.

- **Social Contract Theory & Community:** This model is a *re-negotiation* of the Social Contract (Neidleman, 2012). It acknowledges that the original contract (no D2C) is no longer viable in the modern "state of nature" (the digital market). Instead of simply *breaching* the contract (Option 1) or rigidly adhering to an obsolete one (Option 2), this option invites all members of the Community to create a *new* contract, one that "benefits everyone" and ensures the system's stability by "fostering right relationships".
- **Deontology & Justice:** This option fulfills the spirit of the moral law. By implementing transparency, price parity, and revenue sharing, the manufacturer ceases to treat its partners *merely* as a means to an end. It actively respects their dignity and right to co-exist, thereby fulfilling the core duty of Justice.
- **Dominican Values:** This is the only option that successfully integrates all five values. It is founded on Truth and Partnership, actively builds a new **Community, enacts distributive Justice through shared revenue, and demonstrates Compassion by miti**gating the harm to partners.

- **Implications:** This option is the only one that creates a positive "win-win-win" scenario for all stakeholders. *Subordinate partners* are protected from financial ruin and integrated into the new model. *End-consumers* are well-served by a stable, multi-channel market that offers both online convenience and local support. The *manufacturer* secures its long-term viability by adapting to market realities.

Employees across the entire channel are protected from the mass layoffs of Option 1 and the slow decline of Option 2. This option is complex to implement, but it is the only one that balances market realities with ethical duties, preserving the long-term trust, loyalty, and viability of the entire distribution network.

3. Final Decision and Justification

The final step of the ethical decision-making framework is to "present a well-reasoned final decision" and "support ‘it’ with a strong ethical argument". Based on the comprehensive analysis of the three viable options in Section 2, this paper concludes that **Option 3, the Hybrid "Phronesis" Model, is the "best" and most ethically sound decision**.

This decision is justified by its unique ability to synthesize the demands of all four ethical theories and all five Dominican Values. It is the only option that is not only morally defensible but also practically wise, aligning ethical conduct with long-term strategic success.

3.1 Rejection of Alternative Options

As the rubric requires, our justification must "explain why the chosen decision is preferred over the other considered options". Options 1 and 2 are rejected because they represent critical failures in ethics and leadership.

- **Rejection of Option 1 (Aggressive Opportunism):** This option is decisively rejected as a catastrophic ethical failure. It fails the Consequentialist test by creating a massive net negative utility. It fails the Deontological test, as its guiding maxim cannot be universalized and it treats partners *merely as a means* to an end. It fails the Social Contract test by acting as a "tyrant" that breaches the channel's implicit contract. Finally, it fails the Virtue Ethics test by being a clear expression of the vice of greed and a complete failure to uphold any of the five Dominican Values.

- **Rejection of Option 2 (Full Reversal):** This option, while appearing noble, is also rejected as a failure of leadership. Its flaw is more subtle, resting on a misunderstanding of Virtue Ethics. Virtue ethics is not simply about "pure" intentions; its goal is *eudaimonia*, or "flourishing". As Halverson (n.d.) argues, a leader's wisdom—their Phronesis—is the ability "to deliberate well about what is good and expedient" for the *community*. A leader who, in the name of deontological purity (Timmermann, 2014), rigidly adheres to an obsolete model and guarantees their organization's failure is not acting wisely. This decision confuses the virtue of *loyalty* with an impractical rigidity that ultimately fails to serve the "common good".

3.2 Justification for the Hybrid "Phronesis" Model (Option 3)

Option 3 is the "best" decision because it is the only one grounded in Practical Wisdom (Phronesis), which our project identifies as the central, required virtue for ethical leadership. This model demonstrates a sophisticated understanding that ethics, far from being a barrier, is the only practical path to sustainable success.

- **Primary Justification (Virtue Ethics as "Master Virtue"):** This is our chosen primary lens. Option 3 is a direct expression of *phronesis*. Consequentialism (Option 1's logic) and Deontology (Option 2's logic), when taken in isolation, are merely *techne*—fragmented techniques for analysis (Melé, 2023). They provide conflicting answers: "maximize profit" versus "keep your promise." A leader requires a higher, "executive faculty" to know *how and when* to balance these conflicting demands in a complex, real-world situation. That faculty is *phronesis* (Halverson, n.d.). The wise leader (*phronimos*) rejects the "clever" but short-sighted vice of greed (Option 1). Instead, this leader deliberates and acts based on a holistic set of virtues: Truth (transparency), Compassion (mitigating harm), Justice (fair compensation), and Partnership. This is the only path that leads to *eudaimonia* (long-term flourishing) for the *entire* community.

- **Supporting Justification (Synthesis of Theories):** Option 3 is superior because it is the only option that satisfies the *other* theories as well.

    - **Social Contract Theory:** It respects the Community by acknowledging that the old "social contract" is obsolete. Rather than breaching it, the leader invites all members to *re-negotiate* a new, more resilient contract built on Partnership and mutual consent (Neidleman, 2012).

- **Deontology:** It fulfills the spirit of the moral law. By implementing transparency, price parity, and revenue sharing, the manufacturer ceases to treat its partners *merely* as a means to an end. It actively respects their dignity and right to co-exist as ends in themselves.
- **Consequentialism:** This option is the only one that produces the "greatest good for the greatest number" in the long term (Bykvist, n.d.). It balances the manufacturer's need to adapt, the partners' need for stability, and the consumers' desire for choice, successfully avoiding the massive negative utility of a total channel collapse.
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3.3 Addressing Potential Counterarguments

The most significant counterargument to Option 3 is that it is idealistic, unnecessarily complex, and, most importantly, a violation of the leader's primary fiduciary duty to maximize shareholder profit. This view holds that the "costs" of revenue sharing and technological integration are a direct theft from shareholders, who would be better served by the ruthless efficiency of Option 1.

This objection fundamentally misunderstands the nature of ethical leadership by confusing the *techne* (technique) of a manager with the *phronesis* (wisdom) of a leader.

A manager, focused on *techne*, sees only the technical means to a single, isolated end (short-term profit). A leader, practicing *phronesis*, understands that the organization is a human community and that its *eudaimonia* (long-term flourishing) is dependent on the health of its entire social contract. The "costs" of implementation are not a "loss" but a necessary strategic investment in the firm's most valuable assets: trust, brand reputation, and a stable, loyal partnership network. This is not idealism; it is the practical wisdom to see that, in an interconnected system, long-term flourishing is a "common good," not an individual one.

3.4 Conclusion: From Phronesis to Practice

This decision aligns with the ultimate goal of business ethics: to find "actionable strategies for the pragmatists". Option 1 is unethical and impractical. Option 2 is ethical in intent but impractical in reality. Option 3 is the only choice that synthesizes ethics and practicality.

This decision fulfills the learning outcomes of this course by demonstrating an ability to "apply ethical theories, the Dominican Values, and the ethical decision-making framework to a real-world business dilemma". This choice is not just a one-time decision; it is the *origin* of a new, sustainable practice. As Halverson (n.d.) argues, *phronesis* is ultimately expressed and made durable through the creation of new organizational "artifacts." The practical output of this ethical decision will be the creation of new artifacts: new, transparent partner contracts; new revenue-sharing software and policies; and new integrated "buy online, pick up in-store" systems. These artifacts institutionalize the new, ethical social contract and prove that the leader's wisdom has been successfully translated into practice, ensuring the "common good" of the entire community.

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