

## “*Il Papa Aristotle*”

**Corporate Governance and Ethics:  
An Aristotelian Perspective**  
(Cheltenham, UK: Edward Elgar, 2008)

By  
**Alejo José G. Sison**

A commentary by William C. Frederick, December 2009©

As the book’s title indicates, author and University of Navarra professor Alejo Sison matches up the requirements of modern corporate governance with principles drawn from ancient Greek philosopher Aristotle, mainly from his *Politics*. So, we begin with a bit of a challenge: applying political ideas generated in a small Greek city-state some 2300 years ago by a philosopher (not a manager in the modern sense) who observed an economic world that was a far cry from the scale, complexity, technological dynamics, and global market competition of 21<sup>st</sup> century corporations.

Occupying the Rafael Escola Chair of Professional Ethics in the School of Engineering and as Academic Director of the Institute for Enterprise and Humanism, Professor Sison brings impressive credentials to his task. An earlier 2003 book, *The Moral Capital of Leaders: Why Virtue Matters*, plumbed the possibilities found in Aristotle’s *Nicomachean Ethics* for the required qualities of leadership in today’s large business enterprises.

Sison’s chosen task is to fit modern corporate facts into ancient Stagiritian categories, and he does a notable job of it. He identifies six types of corporate governance systems generally compatible with Aristotelian notions of political organization: tyranny, monarchy, oligarchy, aristocracy, democracy, and polity. You might wish to nominate your own candidates for these kinds of enterprises, but this is Sison’s list:

- Italy’s **Fiat**: a corporate tyranny ruled by Gianni Agnelli
- Hong Kong’s **Cheung Kong Holdings** and **Whampoa Ltd.**: a corporate monarchy ruled by Li Ka Shing
- The Philippines’ **Abelardo Investment & Manufacturing Corporation**: a corporate oligarchy governed by the Simon family clan
- Spain’s **Banco Popular Espanol**: a corporate aristocracy led by Luis and Javier Valls
- USA’s **United Airlines**: an employee-owned (ESOP) corporate democracy
- Spain’s **IDOM Engineering Consultancy**: a corporate polity managed by its founder Rafael Escola

Interesting narratives describe each company’s origin, history, and—the author’s main interest—how each one illustrates Aristotelian principles of organization, motivation, and virtuous (or not) behavior of the firms’ owners/members,

executives/managers, and other employees. Another (Spanish) firm is featured in an opening chapter: Tasubinsa is an employment center catering to and employing mentally handicapped workers that Sison uses to make his point that “the firm is not a money-making machine” as assumed by free-market economic theory.

I leave it to confirmed and qualified Aristotelian scholars—of whom I am not one—to judge how well these companies manifest the essence of the Ancient One’s wisdom. Lacking such knowledge and insight, I should rather like to comment briefly on the general problem of relating ideas originating in one historical and cultural era to the conditions and characteristics found in a (much) later period, with a focus on the meaning and function of economic enterprise as currently understood. The outcome will be a series of questions that challenge the validity and relevance of such an Aristotelian interpretation of the modern business corporation. But first, a look at the book’s main analytic categories.

### **The Business Firm**

Using simpler Aristotelian categories that prevailed in ancient Greece, Sison sets forth a rather arbitrary, economically limited, historically dubious picture of the modern business firm. (a) As noted above, he denies that profit-making (understood today as a measure of productive economizing) is the firm’s function or purpose. (b) Unlike the family institution from which it is depicted to be an outgrowth, the firm is said to be an “artificial”, “unnatural”, “imperfect” association prone to the creation and production of “chrematistic” (excessive) wealth beyond the simple, limited needs of families and village clans. This seems a far cry from today’s large-scale multinational corporations that cater to multiple consumer needs in global markets. (c) “[R]etail trade and exchange”, along with “coined money”, are the source of “non-natural wealth getting . . . practically without limit”, but this foreshortened view seems to slight the market’s ability to facilitate economic exchange among willing economic entities. (d) Paralleling the Aristotle-influenced medieval Catholic doctrine of “subsidiarity”, the firm is subject to a higher authority, in this case political-state supervision, while accepting state support for carrying out its economic functions. Business lobbyists have long noted the latter possibilities, as they rejected a subsidiary standing. (e) The business corporation’s production of goods and services, now given a function beyond “money making”, is nevertheless “subordinate or secondary” to “the development of human excellence or virtue” which “affords us happiness, or a good, flourishing life”. Hence, virtue *uber alles*.

### **Corporate Governance**

Sison doubts the usefulness and value of several mainstream governance practices and reform measures such as separation of Board Chair and CEO, independent and external directors, audit and compensation committees, Sarbanes-Oxley law, company codes of ethics, global compacts and standards, believing them to be mere “box-ticking” exercises. Corporate citizenship and stakeholder involvement do not fare much better, the former of limited use in operationalizing social consciousness, the latter envisioning

*shareholder-managers* (!) as best equipped to foster stakeholder welfare, although stakeholder balance is altogether “too difficult, if not impossible, actually to put into practice”. None of these structural, legal, dialogue- and rule-based processes can deal effectively with corporate governance. Only bare mention is made of the numerous on-going conferences, global compacts, guidelines, standards, and consultancies devoted to corporate transparency, ecosystem integrity, human rights, supply-chain policing, poverty alleviation, carbon footprints, worldwide pollution, etc., which presumably would be seen to suffer similar shortcomings because rule-based.

### **Virtues, Excellences, and the Common Good**

The author’s central thesis may be found in summarized form on the book’s final three pages. It goes something like this: Correct corporate governance depends overwhelmingly on the personal character of an organization’s leadership corps. Rules, procedures, principles, laws, codes are “secondary, once excellent character traits are in place.” To judge the range of goods to be produced by corporations for “the common good,” “virtue—preeminently, prudence—is needed” by leaders. To achieve this end, “there is nothing better than the holistic education of the ruler in the virtues of mind and character.” There you have it: the key to all the woes and missteps of Enron, Tyco, WorldCom, HealthSouth, Ponzi schemer Bernard Madoff, Galleon inside traders, over-reaching Wall Street investment banks and over-zealous mortgage companies. If only their executives had been educated in the “virtues”! One is left then with the secret of ethical corporate governance: Virtuous character, instilled by education in the virtues. It doesn’t take long to realize that the underlying premise is made true by definition. Leaders educated in the virtues become virtuous leaders. Virtuous leaders produce virtuous outcomes. Virtuous outcomes equal the common good. Voila! Aristotle vindicated!

### **Some Questions**

The central problem of this book is a mirror image of its central thesis. Total reliance on implied universalist, absolutist meanings of character, virtue, and the common good, absent a behaviorally-defined theory of their origin, economic meaning, cultural context, and evolutionary function leaves readers with some serious questions.

- Aristotelians are fond of speaking of “the common good” or “the good society” as if they define themselves in ways easily understood and accepted by all—but do they? Does a Taliban Islamic “good society” mean the same—and invoke the same values and practices—as a Buddhist or Taoist or animist or Confucian or doctrinally-diverse Christian or secular community? How is “good” to be understood, given varying cultural contexts? The same could be said of “happiness” which varies widely and subjectively even within the precincts of a single culture. After all, your misery may constitute my happiness. Of course, in the Aristotelian writ, “good” might have no generic meaning at all beyond the circular one that it is the outcome of virtuous behavior. But that doesn’t get us very far.

- And the “virtues”? Consider “truthfulness” or “moderation” or “temperance” or “courage” or “prudence”—all mentioned by Sison. Do they have manifest inherent meaning in all circumstances? One person’s truth is often another’s lie: HealthSouth’s CEO swore under court oath that he knew nothing about the fraudulent actions of his corporate lieutenants; one jury agreed in a criminal trial but then another jury disagreed in a civil action trial. Where is the “truth”?
- Since “character” lies at the very center of Sison’s governance theory, how it is formed and modified over time becomes a very important matter. We are told little or nothing about character formation except that it occurs through education in “the excellences,” which as “virtues” are subjective states of mind. Are Aristotelians blind to contemporary psychological explanations of character and personality development, not to speak of moral development? And have we not learned recently that the world’s business schools who nurture future business leaders are not to be counted on for instilling virtuous character traits in their graduates?<sup>1</sup>
- Sison’s account of what is “natural” and “unnatural” tracks Aristotle’s antique classification of family, intermediate associations, and the state. This view holds that the family, being of biological origins, is “natural”, as are the extended family, clan, and village. The political state is likewise (but less clearly) a “natural” means of drawing citizens together to realize “the good life.” All other “intermediate associations” of which the business firm is one type are “unnatural” and (in the case of business) potentially disruptive of the natural order by injecting commerce and excessive wealth-seeking into daily life. Putting aside the long, long history of how “natural” political states have wreaked havoc in human affairs (and continue to do so) and ignoring the barbaric cruelty and mayhem manifested among “natural” familial next-of-kin, is it possible to imagine a more limited, outdated, inaccurate, uninformed picture of the “unnatural” modern business firm?

We can excuse Aristotle who reflected the society, knowledge, and attitudes of his era, as well as his philosophic biases toward commerce—but not his current followers who are capable (if willing) of viewing the business institution as it is understood today. Are two centuries of economic theorizing—from Smith, Marx, Mill, Keynes, Samuelson, Jensen-Meckling, Williamson, Coase, and on to the most recent Nobel Laureates in economics—to be dismissed as worthless and false? Are the technological achievements spawned by business entrepreneurs—consider Bill Gates—mere “unnatural” manifestations of an urge to acquire “chrematistic” riches, having no societal or humanitarian benefits? Do the broadened, globalized visions of today’s corporate citizens—think of global disease alleviation, supply-chain reforms, new energy technologies, planetary pollutant control—count for nothing in promoting an improved human condition? Are codes and compacts—UN Global Compact, CERES principles, Caux Round Table, Kyoto Protocol, Global Reporting Initiative, ISO and AA standards, UNEP

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<sup>1</sup> Diane L. Swanson & Dann G. Fisher (eds.), *Advancing Business Ethics Education* (Charlotte, NC: Information Age Publishing, Inc., 2008), Chapter 1; and Diane L. Swanson & Dann G. Fisher (eds.), *Assessing Business Ethics Education* (Charlotte, NC: Information Age Publishing, Inc., forthcoming 2010), Chapter by Nancy McGaw, Deputy Director, Aspen Institute Business and Society Program.

Initiatives on Finance, Insurance, Bribery, Corruption, and Environment, EU and OECD directives, World Economic Forums, World Business Council for Sustainable Development, CSR Europe, Equator Banking principles, and many others<sup>2</sup>—mere hypocritical corporate PR actions? Does not research in behavioral economics, complexity-chaos theory, evolutionary psychology, and neuroscience demonstrate the “natural” biological, evolutionary, and neurological foundations of business behavior? When will Aristotelians come to terms, and grips, with the demonstrable, research-based understandings of the modern business firm’s economic functions, its contributions to human life as lived today, its (admittedly hesitant and often spotty) broadened vision of its place within human societies everywhere, and—of special significance for this book—the firm’s transition from being governed solely in the interests of its owner-shareholders to a governance system that acknowledges the need for stakeholder involvement, social controls, transparency of operations, and concern for planetary welfare writ large?

Context! Context! Context! We no longer live in Stagiritian times. Aristotle’s era and world have passed. His teleological formulations of biology, physics, and astronomy were long ago replaced and superseded by successive scientific observers: Copernicus, Galileo, Darwin, Einstein, and by today’s Nobel Laureates in many scientific fields. His philosophic wisdom is now qualified and often contradicted by research in cultural anthropology; social psychology; theories of economic function, development, and growth; organizational behavior; behavioral economics; evolutionary psychology; moral development; neuroscience; socioeconomics; ecosystem dynamics; historiography; political theory; corporate theory. Edwin Hartman, a notable Aristotelian scholar, understands the importance of chronological and cultural context in the study of morality, when he says, “But promising as the Aristotelian approach is, it seems to give an inadequate account of our moral responsibility to those who are not members of our community.”<sup>3</sup>

Professor Sison’s manifestly good-willed intentions and his devotion to Aristotelian ideals—more fully developed in his earlier book *The Moral Capital of Leaders*—elicit one’s sympathy for rather obvious reasons. Virtue, good character, and a society that enables human flourishing are indeed appealing. But what can they possibly mean—and how reach the business mind—if divorced from time, place, and advancing knowledge?

### **Virtues via Values?**

Perhaps a bridge—already well under construction—can span the gap, revealed by Professor Sison’s theory of corporate governance, between old and new, ancient and modern, cultural artifacts and natural process, human aspirations and economic realities.

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<sup>2</sup> Wayne Visser et al., *The A to Z of Corporate Social Responsibility* (Chicester: John Wiley & Sons, 2007).

<sup>3</sup> Edwin M. Hartman, “De Rerum Natura,” in *Business, Science, and Ethics*, Ruffin Series No. 4, Society for Business Ethics, R. Edward Freeman & Patricia H. Werhane (eds.) (Charlottesville, VA: Society for Business Ethics & University of Virginia Darden School Foundation, 2004), p. 201.

Two or more generations of on-going research by social scientists, organizational scientists, and more recently natural scientists has begun to reveal an understanding of the *values*—the behavioral guides—that “govern” our personal, professional, and organizational lives, thus constituting the core elements of our personality or “character”.<sup>4</sup> I suspect Aristotle would have applauded these advances while acknowledging their greater complexity and the continuing difficulty of achieving “the good society”. Not simply a reaffirmation of Aristotelian “virtue” but rather an extension—a bridge beyond his reach—these new understandings of value formation, moral development, and their role in business life might well enrich and expand the modern use of the Ancient One’s wisdom. Professor Sison’s thoughts about corporate governance would in that case take on a greater and more positive significance than even he has envisioned.

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<sup>4</sup> The main players have been Milton Rokeach, Lawrence Kohlberg, George England, Carol Gilligan, Anne Colby, James Rest, William Scott, Barry Posner, Warren Schmidt, Gerald Cavanagh, James Weber, Thomas Jones, Dawn Elm, Douglas May, Linda Trevino, David Messick, James Q. Wilson, Robert Wright, Matt Ridley, Ernst Fehr, Frans de Waal, Michael Gazzaniga, Marc Hauser, Leda Cosmides, and John Tooby.