THE ANCIENTS AGAINST THE MODERNS: FOCUSING ON THE CHARACTER OF CORPORATE LEADERS

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Abstract

When a series of corporate scandals erupted soon after the collapse of the 1990's bull market in equities, policy makers and reformers chiefly responded by augmenting and refining the checks and balances around publicly traded corporations. Through measures such as the Sarbanes-Oxley Act of 2002, securities regulations were intensified and corporate governance was tightened. In essence, reformers followed the tradition of modern political philosophy, with its insistence that pro-social conduct is best produced through institutional mechanisms that harness self-interest.

The empirical evidence, however, suggests there is little promise that the modern approach of institutional reform will work to prevent future ethical breakdowns. Consequently, we look to another stream of political philosophy, the ancient tradition comprising Plato and Aristotle, which argues that social groupings, such as corporations, work best when led by individuals of good character. Applying the ancient view to modern commercial realities, Benjamin Franklin connects the development of virtuous character with self-interest, thus offering a compelling ethic for corporate leaders.

1. Introduction

The recent conflagration of corporate scandals – enveloping the likes of Enron, WorldCom, HealthSouth, Tyco, and Parmalat -- painted the picture of a corporate executive class running amok, flouting their legal and ethical obligations while systematically looting ordinary investors. Confronted with this pervasive pattern of unjust conduct, policy makers and corporate reformers could have responded to improve ethical standards in one of two ways.

One of these would have been to proceed from the assumption that the problem rested with people's characters. On this view, the scandals occurred because individuals holding leadership roles in the corporate arena lacked an inner moral core to influence their choices, and instead let opportunism and self-interest, expressed in the love of money, entirely dictate their conduct. The lesson of the corporate scandals would then be the need to reform businessperson's souls, to make them internalize the idea that money is not the end all and be all of life, but that that there are moral principles to which the pursuit of wealth must sometimes be sacrificed. The other alternative would be to change the institutions in which individuals operate, making little attempt to reform people's psyches. Rather, individuals are accepted for what they are – which is to say, mostly selfish – and the emphasis is on changing the rules of the game to ensure that people's interests are properly aligned to produce the outcomes that justice and morality requires. The first approach emphasizing the character of leaders reflects the views of the ancient philosophers, of great thinkers like Plato and Aristotle. The second approach focusing on institutional structure is more in line with the modern philosophic tradition as typified in the Anglo-Scottish Enlightenment by Thomas Hobbes, John Locke, Bernard Mandeville,

Adam Smith, Baron de Montesquieu, Immanuel Kant, James Madison, and Alexander Hamilton. Today, no discipline more fully embraces this conception of the appropriate way to design social systems than economics.

Partly because economists dominate the scholarly analysis of corporate activity, partly too because politicians find it easier to change laws rather than souls, the primary response to the corporate scandals tended to follow the principles of the moderns over those of the ancients. It is true that immediately after the scandals erupted observers pressed the need for corporations to adopt rigorous codes of business ethics. Figuring, however, that moral suasion would not adequately secure better behavior on the part of corporate elites, the loudest voices ended up being those calling for more regulation of corporations. Leading this charge was the corporate governance movement, a loose coalition of pension funds, labor unions, portfolio managers, and academics seeking to reorganize the distribution of power within corporations. Long before the scandals broke out, the corporate governance movement had been arguing that the structure of corporations was stacked against the interests of workers and ordinary investors. In a victory for this movement, the U.S. government in 2002 reacted to the corporate scandals by passing the Sarbanes-Oxley Act, the most comprehensive reform of federal securities laws since the New Deal.

Structural reforms of the sort promoted by the corporate governance movement will do little to prevent the recurrence of widespread wrongdoing. The empirical evidence on added regulations is mixed at best regarding their efficacy, if not negative. While the modern paradigm has its merits, particularly in its reliance on market mechanisms, it needs to integrate some of the core ethical insights of the ancients. This means laying

more emphasis on the character of business leaders, on instilling the practice of the virtues in their managerial activities, as opposed to just steering them by a mixture of laws, regulations, checks, and balances. As any application of the ancient teaching must suit modern commercial realities, we will propose that business leaders be actuated by a set of bourgeois virtues, as articulated in the writings of Benjamin Franklin.

This paper will be structured as follows: section 2 will summarize the key points of contention between the moderns and the ancients regarding the promotion of moral conduct in societies; section 3 will demonstrate the modern view's shortcomings by referring to empirical studies challenging the efficacy of popular corporate governance and regulatory measures as means to improve managerial behavior; section 4 will lay out Franklin's efforts to promote the ancient ideal of character formation within the context of modern capitalism; section 5 concludes.

2. Ancients and Moderns

That, for the ancients, the system in which things are being run matters less than who is running things, is originally manifest in Plato's (trans, 1968) monumental work of political philosophy, *The Republic*. Featuring Socrates in a dialogue with Plato's older brothers, Glaucon and Adeimantus, *The Republic* explores whether justice can be conceived as intrinsically beneficial to those who practice it. To this end, Socrates shepherds his interlocutors through the drafting of a perfectly just society, in which each and every one of its members benefit from the terms of co-operation without exploitation and where, therefore, an authentically common good is realized (519e-520a). In the best society, Socrates tells us, individuals will specialize in tasks to which they are innately

suited in order to take advantage of the natural diversity of talents as well as generate the higher levels of productivity arising whenever people continually focus on a single endeavor (370a-b). Among the various tasks, none is more vital than that of the guardians, whose job is to oversee the community and defend its interests in the competitive struggle with rival societies (374b-e). Developing this class of leaders turns out, in *The Republic*, to be the essential condition for establishing a just association.

According to Plato, good leaders cannot be trusted to emerge as they do in our society – that is to say, from childhood and adolescence out of the decentralized workings of families, peer groups, churches, and schools, from which the especially ambitious move into the realms of business and politics and vie amongst themselves for power and influence. Plato believes instead that the quality of leadership depends on a concerted social effort in which the education of promising youth assumes the key role in cultivating intellectual and moral virtues. "For at that stage", Socrates says of youth, "it's most plastic and each thing assimilates itself to the model whose stamp anyone wishes to give to it" (377b). Focusing on young people combining a quick intellect with energy and drive, Plato's Socrates articulates a curriculum that has future leaders study literature, poetry, and music. Through state censored works of poetry and literature, students read narratives conveying role models designed to instill piety, courage, fortitude, seriousness, moderation, willpower, liberality, honesty, and justice (377a-392c). The music component has students listening to rhythms and harmonies that soften the hard edges of their energetic souls, while forming a graceful disposition alongside a taste for the fine and beautiful (398c-403c). Ultimately, what this education seeks to achieve is to harness the spiritedness of the guardian elite and transform it into public spiritedness, at the same

time taming their psyches to ensure they will not be carried away by their strong passions into abusing the power at their disposal. Plato does famously propose the communization of property as well as women and children. By this, however, Plato does not mean to indicate that good leadership is fundamentally a matter of institutional design; rather, the institutional changes he proposes are intended to support the character formation of the ruling class. Insofar as common ownership keeps individuals from entertaining ideas of a private sphere, the minds of the guardians are less apt to be drawn away from public concerns.

Underlining the importance of the leader's make-up, Plato asserts that the transcendence of ordinary selfishness is most fully achieved in the character of philosophers, the best and brightest of the guardian class. In their love of wisdom, philosophers are indifferent to sensual pleasure, wealth, status, and power, the very sorts of things that otherwise tempt leaders to ignore the common good (520d-521b). Add to this the brilliance of the philosopher's intellect, and one explains why Plato says, "there [will be] … no rest from the ills of cities", until, "the philosophers rule as kings or those now called kings and chiefs genuinely and adequately philosophize" (473c-d). It is arguable whether Plato really thought his ideal society was possible (Hall, 1977; Bloom, 1977). Theoretical as the exercise may be, Plato's analysis is still relevant in demonstrating how he saw the problem of leadership as consisting in finding capable persons with whom to invest authority while having the assurance that they will not use that authority for their own selfish purposes. As to why exactly institutions could not be relied upon to check and balance such egoism, we must look for Plato's (trans, 1980) answer in another work, *The Laws:*

> [t]he giving of laws is a grand deed, still, even where a city is well-equipped, if the magistrates established to look after the well-formulated laws were unfit, then not only would the laws no longer be well founded, and the situation most ridiculous, but those very laws would be likely to bring greatest the harm and ruin to cities (751b-c).

No matter how good the laws may be, they still have to be enforced by people. And if these individuals are not of sound character, the laws will either be disregarded or twisted to suspect ends.

That other titan of ancient philosophy, Aristotle, signaled the priority of character over institutions in the way he categorized alternative forms of government. In present-day political science, regimes are categorized along structural lines based either on the distribution of power between people and the government, usually with democracy being set against autocracies of various forms; or, on the allocation of decision-making authority between different government actors, so that parliamentary systems are opposed to presidential ones and centralized states are distinguished from more decentralized federal systems. Aristotle (trans, 1984), by contrast, classifies regimes first by the number of people ruling, differentiating between rule by one, the few, and the many (1279a22-b10). But then he splits these three possibilities by whether the rulers in question are selfish or dedicated to the common good, a division that obviously brings character to the fore on the issue of leadership. Thus, interchanging the self-serving and publicly spirited forms, rule by one either is monarchy or tyranny, by the few aristocracy or oligarchy, and by the many democracy or polity. For Aristotle, the nature of the leaders is inextricably tied with the degree to which directives and policies take the entire community's interests into account.

Not only that, he maintains that leaders set the moral tone of their particular groups, influencing how the virtues are understood, informing the personality types and activities that command the highest esteem, and defining the most admirable goals for individuals to seek. Consequently, "the best character is always a cause of a better regime" (1337a16-17), from which Aristotle follows Plato in deducing the overwhelming necessity of education to nurture a virtuous citizenry. While Aristotle recognizes that the kind of education delivered must fit the prevailing regime, he indicates that it should generally rely on repeated practice to render virtue habitual and that the teaching of useful and applied subjects ought to be supplemented by a liberal and musically informed education that refines aesthetic tastes and gives individuals a more comprehensive view of the world. Like Plato, Aristotle (trans. 1982) does not neglect institutional details, noting that laws are required because, "most people obey necessity rather than argument, and penalties rather than what is noble" (1180a4-6). Still, the laws should not aim primarily at regulating and containing self-seeking behavior, but at underpinning virtuous habits (1180a15-25).[1]

All this begins to change during the Renaissance and throughout the 17th and 18th centuries. The first to vigorously dispute the ancient stand against sensual and material egoism against selfishness was Niccolo Machiavelli, the 16th century Florentine diplomat famous for authoring *The Prince*, a book still respected by many today as a hard-headed guide to leadership. In it, Machiavelli (1947) begins his discussion of the virtues and vices of princes by indicating that he is offering realistic and practical counsel, as opposed to a theoretical exercise, "for it has seemed wiser to follow the real truth of the matter rather than what we imagine it to be" (chap. 15). The core of Machiavelli's

realistic teaching on leadership involves absorbing the brutal fact that, "how we live is so different from how we ought to live that … [a] man striving in every way to be good will meet his ruin among the great number who are not" (ibid.). No matter how altruistic people may appear to be, the pursuit of self-interest is the overriding truth of social life and thus, in order to avoid being made a sucker and a failure, leaders must adopt a strategic approach to virtue, practicing it and departing from it in accord with one's interests, ready to obscure or rationalize the deviations when these must be committed, all the while being more concerned about appearing virtuous than actually being so.[2]

If in Machiavelli selfishness was resuscitated, it was still tainted by an association with a method of ruling intent more on security, power, and glory than the common good. It was left to the thinkers of the Enlightenment to make selfishness morally respectable by tying it to the public interest. Accepting Machiavelli's premise that human beings are essentially selfish, Thomas Hobbes (1968) argued that human beings can be conceived as rationally maximizing their interests in jointly contracting with someone to lead them in exchange for averting the terrible anxiety and violence inherent to a condition lacking a common authority, the so-called state of nature (chap. 13). Within this social contract, the leadership, at least if it is a monarch, can be counted on to promote the public good because it is better off if the community it oversees is orderly, peaceful, and prosperous (chap. 19). While concurring with Hobbes that self-interested contracting is the surest basis of social order, John Locke (1960) disagreed that the advantage of a monarchical sovereign was necessarily connected to that of society, recommending instead that leaders be checked by the threat of removal as well as the separation of legislative and executive powers amongst different parties (para. 144 & 145). With Baron de

Montesquieu's (1949) subsequent addition of the judicial branch to the separation of powers doctrine (bk. 11.2), his influence, along with that of Locke, helped bring about the entrenchment of a system of checks and balances in the constitution of the United States.

This took place, too, in no small part owing to the success of *The Federalist Papers*, where James Madison (1982) offered the following justification of the American regime:

> Ambition must be made to counteract ambition. The interest of the man must be connected to the constitutional rights of the place. It may be a reflection on human nature, that such devices should be necessary to controul the abuses of government If men were angels no government would be necessary. If angels were to govern men, neither external nor internal controuls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to controul the governed; and in the next place, oblige it to controul itself (p. 262)

Notice how Madison has reframed the problem of leadership from the way Plato saw it, with the dilemma being that of delineating the proper structure of government so that it is both effective and limited, rather than finding good people with which to entrust power. This is because Madison claims to have arrived at something the ancients did not know, to wit, "[t]he policy of supplying by opposite and rival interests, the defect of better motives … in such a manner as that .. the private interest of every interest, may be a centinel over the public rights (p. 263).

3. Governing the Publicly Traded Corporation

Being both the highest law of the land and the expression of a nation's most exalted ideals, a constitution's principles will naturally make their influence felt in the configuration and development of sub-political associations. No doubt, this has been the case with corporations in the United States as well as other countries throughout the Western world with similar liberal democratic frameworks. Consistent with the modern philosophic perspective informing the American constitutional order, the corporation has come to be seen as a nexus of contracts entered into by various parties – shareholders, creditors, suppliers, managers, workers, and customers -- each trying to maximize its own advantage (Jensen and Meckling, 1976). It is understood, too, that these interests can be expected to clash, including those of shareholders and managers, inasmuch as the latter are tempted to orchestrate outsized pay packets for running the company, not work conscientiously to increase profits, or engage in various subterfuges to extract money out of the owners' pockets. To deal with what economists like to refer to as agency costs, the corporate structure provides for a separation of powers, with the Board of Directors elected to serve as the legislative representatives of the voting shareholders and management acting as the executive branch (hence, probably why managers are called executives) implementing the broad designs set by the Board.

In theory at least, the Board checks the executive corps for the sake of the shareholders. Directors regularly meet with top managers to demand an accounting of the company's situation, while also controlling their terms of compensation and whether they remain at the helm. From the 1980's forward, sophisticated compensation mechanisms like stock options became prevalent as part of an attempt to correlate executive pay with

the firm's performance. Assisting the directors, too, are the auditors whose task is to certify management's financial accounting. The resulting statements issued to the investing public are then pored over by research analysts at brokerage firms and investment banks. All this is supposed to deter management from taking advantage of the fact that the vast majority of shareholders neither have the time, incentive, nor expertise to keep up with everything that executives are doing. Making ordinary shareholders even more vulnerable is that even if they wanted to hold executives to account on their own, corporations often have thousands, if not millions, of people holding shares, rendering their individual voting power insignificant and making it costly for them to coordinate an opposition movement (Berle and Means, 1991). Where these hurdles are surmounted by having the presence of a large shareholders controlling a majority stake of the company, shareholders in the minority are left vulnerable to abuse from majority shareholder tyranny.

According to the corporate governance movement, the traditional checks and balances built into the publicly traded corporation proved incapable of protecting investors from executive predation during the 1990's rise in the stock market. Summarizing the critique:

1. Directors were not sufficiently independent of management. Too many directors were closely tied, whether financially or professionally, to the managers they were supposed to oversee. As a result, directors tended to act as nothing more than rubber stamps, doing little to ferret out wrongdoing.

2. Executives were granted lavish compensation packages. Not only did these bore little relation to the company's performance, they were set at amounts too far above that of employee wages to be consistent with the norms of just desert. This was another consequence of the lack of director independence (Bebchuk & Fried, 2004).
3. The audited financial statements provided to investors were tainted by conflicts of interest. Auditors, like Arthur Anderson vis-à-vis Enron, were simultaneously engaged in more lucrative consulting work for the companies they were inspecting. Not wanting to compromise this revenue stream, auditors gave their imprimatur to the numbers self-servingly put forward by management. Like directors in general as well, audit committees were not fully independent.
4. Research analysts provided overly rosy outlooks of the companies they were covering, failing to sniff out the frauds before these became obvious to the world. The investment banks employing the leading analysts were not interested in upsetting companies that paid them handsomely to issue shares and advise them on mergers and acquisitions.
5. When the financial accounts provided to investors were not being falsified, they were being massaged through the practice of earnings management. Exploiting the vagueness and loopholes contained in accounting rules, executives artificially inflated earnings reports to meet financial market expectations. Encouraging managers to do this were

> the stock options used to increasingly reward them. Since options are highly levered financial instruments, and thus very sensitive to slight price movements in the underlying stock, executives could profit handsomely by adding only a few cents to the quarterly earnings per share figure released to investors. They could then cash out by exercising their options before the market figured out what was actually transpiring at the company, leaving shareholders to incur losses when this realization was eventually made.

Having discerned a flaw in the checks and balances of the corporation, and evidently under the sway of the modern paradigm concerning social systems, reformists understandably insisted that better checks and balances be put into place. Appeals were made to require a majority of independent directors, which, though not finding its way into the U.S. Sarbanes-Oxley Act of 2002, did become part of the conditions of being listed on the Nasdaq and New York Stock Exchange ("SEC Approves", 2003). What did become a part of Sarbanes-Oxley was the demand that auditors be prohibited from also providing non-audit services to the same companies, along with the proposal that audit committees be entirely constituted by independent members ("Summary of Sarbanes-Oxley", 2006, Sect. 101 & 301). New York State Attorney General, Eliot Spitzer, engineered a settlement with ten leading investment banks, in which these agreed to sever ties between their banking and research activities and fund independent research at outside providers ("SEC, NY Attorney General", 2002). The corporate governance movement, too, succeeded in requiring that stock options be put more under investors' spotlights by recording those as an expense on company income statements ("FASB",

2004). It has pressured companies into shifting away from stock options to restricted stocks in remunerating management. The movement's influence is also behind the recent proposal by the U.S. Securities and Exchange Commission (SEC) to enhance the disclosure of executive compensation in financial reports by, among other things, mandating that company practices be described in plain English ("SEC Votes", 2006). With shareholder activism on the part of hedge funds and pension fund managers such as CALPERS (California Public Employees Retirement Fund) having become more prevalent, corporate governance advocates are backing measures that would make it easier for shareholders to nominate their own candidates to the Board of Directors ("Proposed Rule", 2003).

Reformers have told a plausible theoretical story, but the empirical record surrounding their claims is far from clear cut. Consider first the matter of director independence. In a comprehensive review of corporate governance, Marco Becht et al (2002) cite three U.S. studies that describe the connection between the structure of a company's board and its performance as either, "not related", "uncertain", or, "at best ambiguous" (Hermalin & Weisbach; Bhagat & Black; Romano as cited at p. 95). Stephen Bainsbridge (2002) points to research actually indicating a positive association between the presence of insiders on the board and firm profitability as well as stock price (Klein as cited at n. 82; Rosenstein & Wyatt as cited at n.84; see also Bhagat & Black, 2002). At best, independent boards are quicker to remove underperforming CEO's and do a better job constraining management from paying excessively for acquisitions (Byrd & Hickman, as cited in Becht et al, 2002). Why might the relevance of independent directors be so limited? In part, it is because they are more likely to be unfamiliar with

the business they are charged with superintending, rendering them more awed and trusting of management. In director elections as well, the slate nominated by management almost always carries the day as shareholders often do not bother casting a ballot. Such apathy gives directors, independent or otherwise, little reason to energetically press for shareholder interests and much reason to curry managerial favor, while performing their duties with as little trouble and stress as will be consistent with the maintenance of their reputations.

Corporate reformers might try turning this argument around by insisting it underlines the necessity of encouraging shareholders to take a greater role in the company's decisions and of removing the legal and procedural obstacles standing in their way. But in studies exploring whether shareholder activism improves long-term firm performance, the overwhelming tendency has been to discover little impact; nor do studies of short-term stock price movements consistently suggest that investors form a positive consensus upon being informed of shareholder activism at companies (Black, 1998; Gillan & Starks, 1998). Increased opportunities for shareholder involvement will do nothing to change the significant effort required to acquire and interpret all the relevant information surrounding a company. The balance of costs and benefits will continue to favor the so-called "Wall Street Walk" – in other words, simply exiting companies that disappoint, by selling their shares, rather than seeking change through the expression of voice. As such, expanding access to the proxy ballot will leave the field wide open for politically motivated investor groups, such as public sector union pension funds, to promote ideological agendas.

So too, a clouded picture comes to view with respect to the gatekeeper capacities of auditors. To begin with, there is the startling fact that Enron's audit committee was in full compliance with a 1999 SEC rule mandating enhanced disclosure of committee activity and independence (Ribstein, 2002, p. 26). All but one member of the committee was considered independent by prevailing SEC guidelines; together, they constituted a financially literate group, including among its members a former bank President and CEO, a former chair of the U.S. Commodity Futures Trading Commission, as well as accounting professor Robert Jaedicke, a former dean of the Stanford Business School (Healy and Palepu, 2003, p.14). While Enron's auditor, Arthur Anderson, had booked $27 million in consulting fees for the year prior to the energy company's demise, it generated $25 million in audit fees, big enough to raise the possibility that its provision of traditional accounting services alone sufficed to compromise its objectivity (ibid., p. 15). Looking beyond Enron, nineteen out of twenty five studies examining the relation between auditor consulting and the quality of its audits either found no association or a positive one (Romano, 2004, pp. 44-45). Of four studies looking at the connection between corporate performance and the proportion of independent directors on the audit committee, none found any association; results are mixed when independence is gauged against the probability of earnings restatements or fraud, though the evidence suggests that autonomy from executives does help prevent earnings management (ibid., Table 2). Given this limited support for their diagnosis, corporate governance proponents have obviously not reckoned that auditors who simultaneously provide consulting services have superior access to information that can be valuable in the oversight process. Success in the auditing business, too, is highly dependent on reputation, as amply demonstrated

by the swift collapse of Arthur Anderson after its standing was fatally compromised by Enron. This means that any firm engaged in consulting, alongside the more mundane business of reviewing company accounts, has strong incentives to protect its good name.

Regarding equity analysts checking the numbers from outside the corporation, studies point both ways as to whether conflicts of interest with investment banking activities give rise to biased recommendations (compare Bradshaw et al, 2003 with Clarke et al, 2004). As with auditors, reformers may well have neglected the concern analysts have to maintain and enhance their reputations as skilled stock pickers. Whatever the situation might be, it is hard to fathom that investors, especially professionals, do not discount investment banking conflicts in pricing securities, thereby protecting all investors from harm (Iskoz, 2003). The impact of the 2002 settlement negotiated by Eliot Spitzer with investment banks has thus far been mixed. While the fact that an investment banking relationship no longer by itself leads analysts to issue positive recommendations, they remain noticeably reluctant to utter any negative pronouncements (Kadan et al, 2005). Matters have only improved to the point in which analysts now live by the credo: if it is impossible to say anything nice, do not say anything at all. At the same time, the quantity of independent equity research, which the Spitzer settlement with the investment banks sought to increase, appears to be declining, thanks to waning interest on the part of institutional investors and legal action from corporations receiving negative reports (Eisinger, 2006).

Relatively speaking, the corporate governance movement delivers it strongest case in questioning executive compensation practices. Better compensation mechanisms to align executive interests with those of the corporation are necessary, for the evidence

does indicate that earnings management on the part of companies varies with the degree of stock options held by executives (Gao & Shrieves, 2002; Cheng & Warfield, 2005; Kadan & Yang, 2005). Options also affect the likelihood that a company will eventually be forced to restate its earnings (Efendi et al, 2005) and that it will be implicated in fraud (Johnson et al, 2003). Even so, the thesis that CEO's are generally overpaid is more difficult to sustain. That the pay ratio over the last decade has increased between executives and their employees is no necessary sign of inequity, if only because the scarcity of top executive talent makes CEO pay highly sensitive to small changes in demand. If we then take the number of companies listed on the New York Stock Exchange from 1990 to 2003 as a rough proxy of the demand for CEO services – the number grew from 1,678 to 2,283, a 36% rise – it is little wonder that that S&P 500 CEO's took home an average $8.8 million in 2003, up from $3.5 million in 1992 ("NYSE Data", 2006; also see Figure 3 in Jensen et al, 2005). Inasmuch as average tenure has declined for CEO's, their compensation packages also had to factor in the greater risk to them of being summarily dismissed and then subsequently finding it difficult to obtain equivalent employment elsewhere. It is not evident, either, why CEO's should be compared to their employees, rather than other high-paying occupations like Hollywood leading actors, investment bankers, and professional athletes (Bainbridge, 2005, p.1619).

Unable to draw invidious analogies, critics are left with the claim that executives negotiate sweet deals for themselves from pliant boards, a claim with little support in the empirical literature. American compensation committees filled with directors tied to management do not award excessive pay packets, while a study covering British firms from 1991-1994 found no relation between the independence of the board and executive

compensation (Daly and Conyon & Peckboth, both as cited in Becht et al, pp. 102-103). Also running counter to the compliant board theory is that insider candidates for CEO positions receive smaller amounts relative to outsiders (Murphy & Zabojnik, 2003), even though the latter are less likely to have directors under their thumb. Finally, as for the charge that the sensitivity of CEO pay to company performance is less than it should be, the correlation between the two has generally risen since the early 1980's owing to the increased use of equity based compensation schemes (see Bech et al, pp. 98-99). A notable illustration of this is that the average compensation of S&P 500 CEO's dropped 40% from $14.4 million in 2000 to $8.8 million in 2003 (see Figure 3 in Jensen et al, 2005), just as earnings per share of SP500 companies fell over the same period.

With few exceptions, therefore, no sound empirical grounds exist for arguing that the checks and balances framework in place prior to the end of the 1990's bull market in equities was exposed as systematically flawed and in need of major restructuring. Within a more minimally regulated regime than now, the interaction of individuals and firms concerned to advance their financial goals and reputation functioned reasonably well, all things considered, while making no small contribution to a U.S. economy that by 2000 had generated nearly two decades of almost uninterrupted growth (with just a relatively mild recession in the early 1990's), a point that often goes forgotten by critics of the American corporate system. To the extent, then, that the modern view is identified with the operations of self-interest checked and balanced by market forces, that view is left with much to recommend itself. To the extent that the modern perspective is extended to justify additional restraints on corporations, it remains wanting.

4. Franklin's Bourgeois Virtues

Since little can be done at the institutional level to prevent ethical failures from multiplying again, attention must be shifted to the individual level of corporate life, inside the consciences of our business leaders, precisely where the ancient philosophers implied it should be. If we turn to that most common-sensical of ancients, Aristotle, we shall find a fully explicated list of virtues in the *Nicomachean Ethics*. But Aristotle (trans. 1984) also tells us that societies are practically best managed by adopting ameliorative measures that fit the prevailing regime (1288b35-1289a15). Now we could inspect Aristotle's table of virtues, adjust these to the exigencies and realities of modern commercial societies, removing any elements in his moral theory that reflect the agrarian society in which he lived, and then figure out how best to cultivate the resulting code in the minds of corporate leaders. Though this approach has much to commend it, a more direct alternative would be to consult a thinker who offers a conception of virtue that already incorporates the predominantly commercial tenor of our civilization. It would have to be someone that accepts the modern reliance on self-interest, and yet realizes that this needs to be supplemented by the formation of virtuous characters. This person is Benjamin Franklin.

While the famous American newspaper publisher, philanthropist, inventor, and statesman expressed his moral views in a wide variety of pamphlets, columns, letters, and essays, the core of Franklin's thinking is to be found in *The Autobiography*. This memoir was completed and published in response to the appeal of his friends, including Benjamin Vaughan who thought the telling of Franklin's life story would further, "the forming of future great men … [the] improving of private character, and consequently of aiding all

happiness both public and domestic" (Franklin, 2004, p. 59). Covering his boyhood days as a budding scholar in the 1710's up to 1763 when he was in London advocating for the American colonies (he died before he could recount his involvement with the American revolution), Franklin structures his life as the story of a man that flirted with moral disaster in his youth, but then woke up to the errors of his ways before it was too late, disciplining himself to become a better person and prospering as a result. As he tells it in *The Autobiography,* his brush with moral ruin was due to his reading, which included John Locke's *An Essay Concerning Human Understanding*, the *Port Royal Logic*, and Xenophon's *Memorabilia*, the latter influencing Franklin to adopt the Socratic method of challenging widely held opinions. In tandem with his reading of the Earl of Shaftesbury, Anthony Collins, as well as what he took to be the poor articulation of the orthodox theist position in Robert Boyle's lectures, Franklin's acquired Socratic propensity to doubt led him to reject the peculiar dogmas of established religions and become a deist.

This intellectual journey culminated in his writing a pamphlet of moral theology, written in 1725 when he was nineteen years old, entitled *A Dissertation on Liberty and Necessity, Pleasure, and Pain*. On the assumption that God created the universe, and is omniscient, perfectly good, and omnipotent, the young Franklin deduced that the co-existence of these attributes made it impossible for there to be evil in the universe; that, therefore, humans do not possess free will to choose between good and evil; that human beings are instead necessarily driven by self-love to fulfill God's benevolent designs in all that they do; and that, consequently, there is no objective basis for distinguishing between moral and immoral conduct amongst the human race, everything being right from a God's eye point of view.

Franklin's moral turn came about in rejecting this philosophy. He started suspecting it after he proselytized his friends James Ralph and John Collins, who both then victimized him by not paying back debts. Likewise, Franklin reflected that a similar amoral mindset was behind his being wronged by Pennsylvania Governor Willliam Keith, a free thinker that had promised to back him in founding a printing-house and pledged to provide him with letters of credit to purchase supplies in London. When Franklin arrived in London, no letters awaited him. He also felt remorse about his conduct towards Deborah Read as well as a Mr. Vernon from Newport, Rhode Island. A friend of his brother John, Vernon asked Franklin to collect and forward money owing to him by an individual in Pennsylvania. Franklin collected the money, but did not immediately forward it to Vernon, instead lending it to his deadbeat friend Collins to pay for the latter's rent and board. Read, who would eventually become Franklin's wife, was courted by him in Philadelphia before he made his trip to London to obtain printing supplies for the new business that he planned with Governor Keith. Upon learning of Keith's mendacity in London, Franklin stayed there with his friend James Ralph, spending their free time in theatres and on other entertainments, forgetting about Read and never bothering to write to her that he was not returning to Philadelphia anytime soon. Feeling pangs of guilt, and hard done-by, as a result of his theory, Franklin (2004), "began to suspect that this Doctrine, tho' it might be true, was not very useful" (p. 46). *A Dissertation on Liberty and Necessity, Pleasure, and Pain*, "appear'd now not so clever a Performance as I once thought it; and I doubted whether some error had not insinuated itself unperceiv'd, into my Argument, so as to infect all that follow'd, as is common in metaphysical Reasonings (ibid.). Nor did this train of thought simply end with a negative

verdict on principles he formerly held. Franklin proceeded to affirm a fresh outlook on morals, "convinc'd that *Truth, Sincerity, and Integrity* in Dealings between Man and Man, were of the utmost importance to the Felicity of Life [italics his]" (ibid.).

Franklin's preference for practice over theory is reminiscent of Machiavelli's (1947) call to heed "the real truth of the matter rather than what we imagine it to be" (chap. 15). But if Machiavelli defines the real entirely in pragmatist terms as what works, relegating theory to the flights of the imagination, Franklin sticks to the distinction between utility and truth, between what practice demands and what theory longs for, and only chooses to concentrate on the former amid skepticism about having resolved anything regarding the latter. For it needs to be stressed that Franklin never actually declares his theoretical analysis of morality to be mistaken, never pinpoints the error he committed, only going so far as to raise the suspicion of a defect somewhere in the reasoning.[3] Far from posing an obstacle to a clear-eyed grasp of our ethical situation, Franklin thinks the uncertainties of theoretical analysis liberate us to wholeheartedly give in to the desires and concerns that press upon us in our everyday affairs, whose urgency is such in any case as to call into question any theoretical tendencies that might oppose them. Hence, Franklin gives us moral counsel without foundations, to adopt a postmodern phrase.

The closest he comes to having an Archimedean point is in framing his moral teaching to meet our biggest concern, the pursuit of our own happiness – but which Franklin (2006), as indicated in a part of *A Dissertation on Liberty and Necessity, Pleasure and Pain* that he did not disown, thought to be a subjective quest proceeding from a continual uneasiness with our present condition. To allay this unease: "One

proposes *Fame*, another *Wealth*, a third *Power*, &c [italics his]" (Sec. II, iii). For Franklin obviously, a significant component of individual happiness is wealth, and as this opinion was shared by much of his late 18th century American audience, his enumeration of virtues reflects that bourgeois outlook. It is in thus connecting virtue to self-interest that Franklin's moral teaching embraces the modern philosophical perspective, a connection still relevant to business leaders in early 21st century Western societies driven by the same aspirations for material affluence that moved their 18th century forbearers.

Of course, the tie to self-interest takes away some of the luster that the ancients had bestowed on virtue, stripping it of the nobility of self-sacrifice. Franklin's morality is also a far cry from the dictums of corporate social responsibility, which call on executives to consciously integrate the public good into their business decisions. Though Franklin certainly encouraged public-spiritedness, he believed that this was best pursued outside of business in the political arena or through co-operative ventures financed by individuals specifically for the production of a public good. Thus, Franklin (2004) solicited individual contributions to hire a street sweeper and found a public library in Philadelphia (p. 104 & 64). Moreover Franklin's virtues, as any reflection on the table below will confirm, do require a modest degree of self-restraint in the short-run as a condition of ultimately securing prosperity, particularly insofar as businesspersons are called to manage predilections towards indolence, impulsivity, and opportunism. Such an enlightened form of self-interest arguably confers a measure of dignity on those who practice it. Also dignifying, from Franklin's standpoint, is that the pursuit of one's true interest redounds to the well-being of others. Besides, Franklin seems to think that any loss of grandeur in his teaching is more than adequately made up by the greater

probability of virtuous behavior actually occurring as a result of defining morality in such a way that it pays better personal dividends.

The best-known classification of the virtues contains just four – the cardinal virtues of temperance, courage, justice, and wisdom – but Franklin found that this, and other short lists, tried to pack too much meaning in each of the terms. For the sake of clarity, Franklin proposed a larger number of virtues, thirteen of them, with each denoted by a concise precept. The table below depicting them also includes the personal benefits to be expected from practicing each of the thirteen virtues, either as told by Franklin or as deduced from the nature of the virtue in question.

[table on next page]

Table 1: Franklin's Table of Virtues

VIRTUE	PRECEPTS	PERSONAL BENEFITS
Temperance	Eat not to dullness; drink not to elevation	Helps keep a cool and clear head; maintains health and energy
Silence	Say nothing, except for what may benefit others or one's self. Avoid trifling conversation	One learns more by listening to others; one will be more apt to be accepted into serious company
Order	Put everything in its place; let each part of your business have its time	Productivity increases as papers, documents, and files more readily summoned; more efficient scheduling of tasks; better focus on the task at hand
Resolution	Resolve to perform what you ought; perform without fail what you resolve	More things get done to completion; gain reputation as steadfast and determined
Frugality	Make no expense but to do good to others or one's self; waste nothing	More quickly increase net worth and obtain financial independence; the build-up of savings diminishes temptation to commit injustice
Industry	Lose no time; be always employed in something useful; cut off all unnecessary actions	As above, more quickly increases net worth and obtain financial independence, reducing incentives to injustice; makes others more likely to lend or otherwise finance one's projects.
Sincerity	Use no hurtful deceit; think innocently and justly; and, if you speak, speak accordingly	Secures the trust of others, making them more willing to co-operate on one's projects; ensures a clean conscience
Justice	Wrong nobody by doing Injuries or omitting benefits owed	As above; avert legal sanctions
Moderation	Avoid extremes; refrain resenting injuries as much as you think they deserve	Prevent errors of judgment that zealousness typically produces; cultivate reputation as even-tempered; keeps the desire for "pay-back" from worsening one's relationships and jeopardizing one's interests.
Cleanliness	Ensure that your person, clothing, office, and residence are clean	Makes others more amenable to one's presence; garner reputation as a well-organized individual
Tranquility	Do not be disturbed by trifles or common and unavoidable accidents	Better maintain a calm and self-possessed demeanor, helps one gain confidence from others; keeps one's focus on what is truly important and within one's power.
Chastity	Engage in sex only for health or reproductive reasons; don't use sex to harm one's peace of mind and reputation or that of others	Minimizes instances of sex between co-workers, reducing tensions at the workplace; eliminates sexual harassment
Humility	Imitate Socrates and Jesus	Less resistance to confront when trying to advance a cause; one becomes more likable and persuasive; lessens feelings that one is above others and hence beyond the rules of morality.

Source: Franklin (2004), pp. 68-69

No catalog of the virtues would be credible in today's business environment unless it was in harmony with the diversity of contemporary societies. Franklin's credo addresses this, insofar as he sought to strip it, "of any of the distinguishing Tenets of any particular Sect. – I had purposely avoided; for being fully persuaded of the Utility and Excellency of my Method, and that it might be serviceable to People in all Religions … I would not have anything in it that should prejudice any one of any Sect against it" (p.75) While various religions would certainly want to expand on Franklin's list – for example, by adding charity, inserting other role models of humility beyond Jesus or Socrates, or tightening the chastity restrictions – none of the major religions could hardly quarrel with it as a minimum set of demands.

Needless to say, the corporate scandals never would have occurred had the leaders at companies like Enron and WorldCom adhered to Franklin's ideals, in particular sincerity, justice, and humility. Still, it is one thing to delineate what corporate leaders ought to do, quite another to have them doing it. One would think that Franklin's modern harnessing of self-interest would give people more than enough incentives to realize the ancient imperative of developing a good character, but he recognized that ingrained habits, changing moods, and strong impulses together create self-control problems that hinder individuals from staying the rational course to happiness. Following the ancients, Franklin advocates that the education of young people be oriented towards the formation of their character, and not just the delivery of a skill set, which is what business programs training future corporate leaders merely aim at today. In his proposal to found what would subsequently become the University of Pennsylvania, Franklin recommended that

students learn the public and private benefits of the virtues, that they be inculcated with good-will towards their fellows, and that they be constantly told that true merit lies in serving others (pp. 203-214). Given his skepticism about moral theorizing, it is no surprise that Franklin shies away from abstract philosophizing as a means of communicating moral lessons, going against a common methodology used in business ethics courses today. More in line with the human mind's attraction to specifics, he suggests a more concrete approach to moral education, focusing especially on history, including that of business, as a source of role models. If we recall, too, how Franklin was encouraged to publish his life story because his friends thought it would furnish a good example for others to imitate, biographies of corporate leaders also come to view as useful tools of a concrete pedagogy.

Beyond the educational system, Franklin grasped the possibilities of the emerging mass-media, using his newspaper to disseminate moral lessons, including most notably a Socratic dialogue on the theme that vice is irrational and imprudent, something well worth our business and financial press to consider that it do more (pp. 80-81). Then there is the method by which Franklin himself grew more disciplined, whereby he kept daily track of his moral progress, one virtue at a time until they all become habitual. Unsophisticated as it might appear, Franklin's technique would simply have business leaders apply to ethics the same sort of emphasis on goal setting and regular performance measurement that is otherwise typically laid in MBA programs.

5. Conclusion

Beginning in the fall of 2001 with Enron, a series of ethical failures at a number of major corporations came to light, the chief response to which has been to augment and refine the checks and balances governing publicly traded corporations. As such, the policy reaction has adhered to the outlines of the modern tradition in political philosophy, with its emphasis on channeling and containing self-interest, in contrast to ancient political philosophy, which stresses the character of leaders.

Surveying the literature on board composition, auditor consulting practices, investment research, shareholder activism, and executive compensation, there is relatively little evidence to suggest that the extension of the modern approach to alter regulatory and legal structures will do much to improve the ethical performance of business. Since new laws and regulations hold little promise, the prevention of corporate misconduct requires that attention be paid to the character of business leaders. We must heed the ancients, though this must be done with a view to the modern reality of complex commercial societies.

To this end, Benjamin Franklin's table of virtues aims at realizing the ancient end of good character through the modern means of self-interest. Putting forward a table of thirteen virtues, Franklin urges that the character formation of business leaders take place through an education emphasizing role models culled from business history and biography, ethical messages delivered through the mass media, and by individuals being encouraged to undertake a program of self-vigilance. By forcibly insisting that virtue personally pays, Franklin offers a compelling ethic for corporate leaders.

NOTES

[1] Similarly, the moderns did not simply focus on institutions, but also discussed education. The most influential work was John Locke's (1996) *Some Thoughts Concerning Education*. Thomas Hobbes (1968, chap. 30) and Adam Smith (1981, Bk. 5.1.f) also examined education. Even so, the emphasis was more on the structural management of self-interest than the educational formation of character. See Thomas L. Pangle and Lorraine Pangle (1993) for an overview and analysis of the pedagogical theories advanced by the moderns.

[2] As Machiavelli (1947) says, "It is good to appear clement, trustworthy, humane, religious, and honest, and also to be so, but always with a mind so disposed that, when the occasion arises not to be so, you can become the opposite … so far as he is able, a prince should stick to the path of good but, if the necessity arises, he should know how to follow the path of evil" (chap. 18).

As the reader may surmise, we do not subscribe to the thesis, famously advanced by J.G.A. Pocock (1975), that Machiavelli revived ancient ideals of civic republican virtue, ideals which subsequently influenced the American founding. For a critique of the "Atlantic republican" school of thought, and the ancient republican reading of Machiavelli, see Pangle (1988, pp. 28-39 & 62-67).

[3] For a very interesting argument that Franklin remained, even if covertly, a philosophical amoralist, see Weinberg (2005). For a more orthodox view that basically accepts Franklin's claims of a moral conversion, see Isaacson (2003).

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