Accepted for publication in Business Ethics Quarterly.
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The virtue of governance, the governance of virtue

Geoff Moore
Durham University, UK

Abstract

The current economic and preceding financial crises seem to provide evidence in favour of the self-destruction thesis of capitalism. Responses to the crisis have been polarised. Some suggest that regulatory changes are all that is needed. Others suggest the need to change the economic system by developing a new global economic ethic. The first is too limited, the second too utopian.

This paper suggests that a MacIntyrean virtue ethics approach provides both a more convincing diagnosis of the problem and leads to a more workable prescription. First, we need to understand the internal contradictions of the tradition that has developed of how to 'do' business. Then we need the virtues to be exercised inside practices and institutions. But virtue itself needs to be institutionalised; we need an appropriate governance of virtue in organizations. Even though governance is usually taken to 'crowd out' virtue, this paper proposes an approach to governance that 'crowds in' virtue.

Introduction

"Virtue is triumphant only in theatrical performances"[1]

Recent events have led to questions over the sustainability of capitalism, and most particularly its Anglo-American manifestation, as an economic system. Leaving aside the issue of ecological sustainability the questions over Anglo-American capitalism's future raise moral issues. There is a dawning realisation that an economic crisis is never just an economic crisis, but is also, and always, a moral crisis. Indeed, it may well be that the moral crisis preceded the recent economic crisis and we can see this most clearly through a virtue ethics lens. But virtue ethics offers not just a diagnosis but also a prescription, one that is at variance with the two alternative approaches currently proposed.

The paper proceeds as follows. Starting from Hirschman's (1982) distinction between the *doux*-commerce and self-destruction theses of capitalism, the second section reviews recent economic events set within an historical context which explores the contradictions inherent in the capitalist system. This suggests that the self-destruction thesis might indeed be reaching its apotheosis and the *doux*-commerce theory its nadir. In the third section, the paper reviews diagnoses and prescriptions for these problems, prescriptions which tend to bifurcate along traditional lines. There is a regulatory approach which argues that not much is wrong, and certainly nothing that cannot be resolved by a bit of 'tightening' here and there. At the opposite extreme is an approach which suggests that we need a new global economic ethic and order and, while this comes disguised in reformist clothes, it is actually revolutionary and utopian.

In section four, the paper then turns to show how a MacIntyrean virtue ethics approach provides both a better diagnosis and also a better prescription. It considers the ability of organizations to possess and exercise virtue and this leads, in section five, to a consideration of the governance of virtue which draws largely on experimental behavioural studies. In section six, the paper proposes a governance system that would enable the 'crowding-in' rather than the 'crowding out' of virtue, while considering some implications of implementing such an approach.

I The market as a school for the virtues?

Dunning (2003: 12) makes reference to the four institutions of global capitalism as markets, governments, civil society and supranational entities. Here we will be concerned mainly with the first of these and, in particular, with the business organizations that supply products and services to the market. But we will also need to set such concerns within the broader institutions of markets and governments and of capitalism itself. Thus, we will be concerned with 'commerce' broadly defined. In Hirschman's (1982) classic article, he distinguished between the *doux*-commerce and self-destruction theses of commerce. The *doux*-commerce or 'soft' thesis contends that commercial activity has a civilising or softening effect. In order to operate, the market calls forth virtues and so is morally self-sustaining. Thus trustworthiness becomes prevalent, dishonesty is held in check, self-control is rewarded at least in the long term, sympathy or indeed empathy is fostered, and fairness is encouraged (Maitland 1997: 21-23). That these arise because of self-interest, so that not only are these public virtues, but they also give rise to private benefits, is an explicit part of the thesis; it is thus based on "mutual utility" (Hirschman 1982: 1465, citing Ricard 1781: 463). Any concern that such economic relationships are "purely instrumental and calculating" (Maitland 1997: 27) and so will not last, is dismissed, because the future casts a long shadow. We thus arrive at a happy coincidence of moral and utilitarian virtues (Moore 2010a).

The self-destruction thesis, by contrast, contends that the market relies on virtues that are generated exogenously. There is a stock of moral capital, perhaps derived from religious or other practices, on which the market needs to draw, but the market itself only depletes these. While this may be self-sustaining overall, the self-destruction thesis suggests that "capitalism might corrode, not only traditional society and its moral values, but even those essential to its own success and survival" (Hirschman 1982: 1468). Thus, on this account, "the market is living on borrowed time – and on borrowed virtues" (Maitland 1997: 20), and may indeed have within itself the "seeds of its own destruction" (Hirschman 1982: 1467).

A little-noted part of Hirschman's argument, however, is his conclusion that these two theses are not necessarily mutually exclusive; that it may indeed be possible for both to hold:

> "Once this view is adopted, the moral basis of capitalist society will be seen as being constantly depleted and replenished at the same time. An excess of depletion over replenishment and a consequent crisis of the system is then of course possible, but the special circumstances making for it would have to be noted, just as it might be possible to specify conditions under which the system would gain in cohesion and legitimacy." (Hirschman 1982: 1483)

If the mutually inclusive approach of the two theses is correct, it points particularly to the need to specify the conditions under which virtue might be crowded-in, rather than crowded-out, such that the system gains in cohesion and legitimacy. But first we need to understand more of the crises themselves. And, anticipating later sections, we require a 'thick description' (see Beadle & Moore 2011)[2] of these if we are to be able to appreciate a MacIntyrean diagnosis. It is to this that we now turn.

II The global financial crisis and its origins

A historical reading of capitalism in its Anglo-American manifestation might usefully start at the beginning of the 20th century, with the rise of the giant corporation. This transformed the economic environment from one approximating to perfect competition to one which lay closer to oligopoly

capitalism (Palma 2009: 861). This development saw rising industrial concentration eliminating free competition and bringing banks and large corporations into an increasingly intertwined relationship (Wray 2009: 810).

The financialisation of capitalism which then occurred is observable in two stages. First was the development of stock exchanges and easily transferable 'paper' claims to wealth (Foster & Magdoff 2009: 71) which became separable from the 'real' assets which underpinned them. Second, from the 1980s onwards, a "bewildering array" (*ibid*.: 72) of new financial instruments (stock futures, options, derivatives, hedge funds and so forth) emerged, as the owners of capital sought to increase their wealth through financial speculation. The economy moved, therefore, from what Marx had termed a M-C-M' model (Money capital purchases the factors of production to produce Commodities which are then sold at a profit [the surplus value produced by labour] thus producing M') to a M-M' model in which money makes more money directly (*ibid*.: 45). The paper economy thus became decoupled from the real one (Perez 2009: 780).

The speculation which resulted may have been manageable if the underlying 'real' economy continued to dominate. In practice, however, the reverse became true. In the USA,[3] profits from financial activity rose as a percentage of total domestic profit over the period 1965-2005 at the same time as manufacturing profit declined. After 2000 financial profits increased even more rapidly to around 40% of total domestic profit by 2005, even though financial services represented only about 5% of total employees, while manufacturing profit fell to around 13% (Crotty 2009: 576, Foster & Magdoff 2009: 55, Nielsen 2010: 309-10). Thus arose the situation of which Keynes had famously warned: "the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done" (Keynes 1973: 159).

Such speculation both demands and demonstrates the "power ... of cheap money" (Steil 2009: 3). From 1975 until 2005 total debt in the USA as a percentage of GDP grew from 160% to over 330% (Foster & Magdoff 2009: 46-7). This encouraged asset bubbles as speculative investment drove up prices, which then required further debt, as speculators bet on continuing rises in the value of the assets, until the bubble burst. One such example was the easy liquidity bubbles of 2004-2007 driven by an "easy credit push" which made cheap money accessible (Perez 2009: 794). An alternative approach to speculation was evident in the 'dot-com' bubble and crash of 1997-2000 where excitement about new technology attracted speculative money almost regardless of the cost (*ibid*.: 794).

A further factor which reinforced both the financialisation of capitalism and industrial concentration (and thereby the power of large firms) was the development, from the 1980s onwards, of an active merger and acquisition market. In particular, this refers to the role of hostile takeovers in the market for corporate control. While hostile takeovers form a small percentage of acquisitions,[4] the threat of a hostile bid and the potential effect of boosting short-term profits by stripping out costs necessary to sustain long-term excellence (customer service, engineering, R&D), forces incumbent managements to perform in the short-term. The argument in favour of hostile takeovers is thus shareholder-oriented. It prevents management from shirking, enabling shareholders to prevent their own exploitation by management through their right to hire and fire them (Macey 2008: 118),[5] reinforcing accountability (Howton et al. 2008: 324). Whatever the financial impacts,[6] the point is that such activity reinforced the notion that firms are simply financial investments, to be bought and sold at the discretion of shareholders to maximise their returns.

One final factor in the financialisation of capitalism was the role of government. The pre-1930s 'small government', laissez-faire economy was no longer tenable following the Great Depression and

World War II and was replaced by a ‘big government’ approach in which government took a greater role in the regulation of business (Wray 2009: 809). It also promoted greater equality, growing incomes and thus helped to stabilise the economy. But as economic growth slowed in the 1970s, this paternalistic form of capitalism was turned into “money manager capitalism” in which mutual and pension funds came to dominate (Wray 2009: 814). This approach still called for big government but one which sided with the money managers by introducing deregulation. This, in turn, allowed for further consolidation into ‘too big to fail’ financial institutions (Stiglitz 2010: 15, Wray 2009: 815) such as, in the USA, Fannie Mae and Freddie Mac (Steil 2009: 6), or institutions which were ‘too interconnected to fail’ such as AIG (Henderson 2009: 6-7 and see also Crotty 2009: 569). This, of course, also put government in the role of lender of last resort if (and when) such institutions failed (Foster & Magdoff 2009: 84).

Thus, in summary, “after 1980, accelerated deregulation accompanied by rapid financial innovation stimulated powerful financial booms that always ended in crises. Governments responded with bailouts that allowed new expansions to begin. These in turn ended in crises, which triggered new bailouts” (Crotty 2009: 564). The moral hazard associated with such activity thereby increased (Nielsen 2010: 314-5).[7] But the effects of this approach were felt mainly by workers with stagnant real wages, rising household debt, and climbing unemployment / underemployment; the fragility of workers’ economic status became the norm (Foster & Magdoff 2009: 74).

From capitalism to capitalist businesses

We will return to the boom and bust cyclical nature of capitalism below when we consider the latest and largest crisis. The primary concern of this paper, however, is to do with organizations within the capitalist system and the individuals who run them. And so we turn next to evidence of how the capitalist system, as it has developed, operates at the firm level. While it is commonplace to start with the demise of firms such as Enron and Arthur Andersen, it is perhaps more instructive to begin with the prior story of Long-Term Capital Management (LTCM). Unlike its name, it is a short story which began in 1993 and ended in 2000. Yet in that time the firm was not only spectacularly successful but also suffered such large losses, and with such potentially large ramifications, that the Federal Reserve Bank of New York had to organize a bailout (Stiglitz 2010: 148).

The business was based on a highly sophisticated mathematical and economic model that worked by entering large-scale derivative contracts based on arbitrage opportunities.[8] The business model, however, fell apart when, in August 1998, Russia defaulted on its debt. The Russian government “simply decided it would rather use its rubles to pay Russian workers than Western bondholders” (Loewenstein 2000: 144). The Federal Bank bailout, however, saved the company and it survived long enough to pay off its indebtedness before being liquidated in early 2000.

LTCM was a single, though significant, event. Consider now a further set of events in the recent history of capitalism – those of corporate scandals prior to the global financial crisis. Rockness & Rockness (2005) provide a useful historical overview of corporate fraud and failure and identify three significant periods, at least as far as the USA is concerned: the 1920s leading to the crash of 1929; the 1980s; and then the late 1990s and early 2000s. In each case, the period was followed by the tightening of regulation culminating in the Sarbanes-Oxley legislation. In the last of these periods (from 1996 until 2003), it was not just Enron and the associated demise of their auditors, Arthur Andersen, but other well- and lesser-known firms were also involved. Sunbeam, Waste Management, Global Crossing, Xerox, WorldCom / MCI, Healthsouth, Tyco, Adelphi Communications, Parmalat, Ahold, Cendent and Imclone Systems, together with Enron and Arthur Andersen (*ibid*.: 36-40) may be a list of the most significant of those charged with financial irregularities, but they represent only the tip of the iceberg. According to the General Accounting Office (GAO 2002), since 1997 “more than 10% of US public companies have restated their reports

resulting in market capitalization losses in excess of $100 billion" (cited in Rockness & Rockness 2005: 35). And Arthur Andersen was not the only accounting firm that was subject to scandal and litigation: all of the remaining 'big four' were also involved in major financial reporting scandals (*ibid*.: 40-42).

The most common behaviour of which the trading firms were found guilty was fraudulent financial reporting: "The types of fraud were pervasive, extended over many years rather than single episodes, and involved very large sums of money" (Rockness & Rockness 2005: 35). But perhaps even more worryingly, "the most consistent common element across all these firms is the involvement of senior management in the frauds including members of the Board of Directors, the CEO, the CFO, and other key executives" (*ibid*.: 35).

We will leave making a normative assessment of this series of events until later and turn to a related set of concerns about the role of senior managers in corporate frauds: individual rewards. Indeed, Frey & Osterloh (2005: 97) cite empirical evidence of a linkage between the two: "formal accounting restatements of publicly held companies between 1997 and 2002 [in the GAO report cited above] were found to be most likely in firms with a high proportion of stock options in terms of CEO pay".

Individual rewards

Recent evidence is only part of a longer-term trend in the rise in executive compensation that has given rise to much concern (Osterloh & Frey 2004: 191-192). Historical data is instructive in this respect. In the USA, median CEO pay decreased sharply after World War II, and then had a very modest rate of growth averaging about 0.8% per year until the end of the 1970s. In the 1980s it began to accelerate averaging 4% per year, 8% per year in the 1990s, and 14% per year in the period from 2000-2005 (Jarque 2008: 271). In 2007 the compensation of CEOs in the 500 largest firms was approximately 300 times that of the average worker (*ibid*.: 268); in 1970 it was (only) 25 times (Osterloh & Frey 2004: 191). Figures from the UK demonstrate a similar trend with FTSE350 CEO total remuneration having risen 284% over the period 1996-2008 (Gregory-Smith 2010), and the ratio of chief-executive to employee pay standing at 128:1 for FTSE100 companies in 2009 (Guardian 2009). A notable feature of the changes in executive compensation is the move away from fixed salary to performance-based compensation such as stock options, accounting for nearly 50% of total compensation for the top 500 American CEOs in 2007 (Jarque 2008: 269).[9] The effect has been that "fiduciary duties [a moral and legal mechanism] are now less important as a means of restraining executive behaviour because the market is now being employed to achieve the same end" (Boatright 2003).

Associated with the rise of executive compensation, of course, was the fact of bankers' bonuses. These had already reached unprecedented levels prior to the global financial crisis. Crotty (2009: 565), for example, cites figures of Goldman Sach's bonus pool of $16 billion in 2006, averaging $650,000 distributed (very unevenly) across 25,000 employees. But even as the financial crisis unfolded bonuses continued to be paid. Wall Street bonuses, for example, remained at over $18 billion in 2008, comparable with those in the boom year of 2004.[10] These bonuses are, of course, linked to the excessive risks that the speculative nature of modern financial capitalism encourages key personnel in financial institutions to take when markets are buoyant (Crotty 2009: 565, Steil 2009: 8). But such bonuses seem to have become entrenched to the extent that they have become divorced even from the 'reality' of paper profits. Such figures on executive compensation and bankers bonuses seem to indicate the impact of the financialisation of capitalism at the individual level, just as the corporate frauds and scandals seem to indicate the impact at the firm level.

The global financial crisis

Finally, in this section we turn to the most recent and spectacular of the challenges to capitalism, the global financial crisis and its aftermath. This may be seen as simply an extension of the trends observed above. It began with house price bubbles in several countries including the US, UK, Spain and Ireland (Henderson 2009: 2), serviced by cheap credit. This bubble was, however, exacerbated by the increasing bundling up of such mortgages into mortgage-backed securities (MBS) (Henderson 2009: 4),[11] including some in the sub-prime (high risk) category. In the USA, the amount of subprime mortgages issued and embedded in MBSs rose from $56 billion in 2000 to peak at $508 billion in 2005; and at its peak in 2005 outstanding mortgage debt reached $8.66 trillion or 69.4 percent of US GDP (Foster & Magdoff 2009: 96-7). Ratings agencies then formed an important part of the chain by giving high ratings to these securities (Crotty 2009: 566, Henderson 2009: 4, Stiglitz 2010: 7). And one final link in the chain was that credit default insurance could be obtained by buying credit default swaps (CDS), thus apparently further insulating firms from the risks they were incurring.[12] In line with the speculation associated with the financialisation of capitalism outlined above, and the warning of Keynes, the CDS market "came to resemble a casino" (Henderson 2009: 5).

Since no one actually knew any longer who owned the 'toxic assets' or how great any individual institution's exposure to these might be, the questions, as always, were simple: what would trigger the bubble to burst and when? The answer was interest rate rises in 2006 which sent house prices into reverse particularly in 'hot' subprime regions (Foster & Magdoff 2009: 97). CDSs lost value and there was a 'flight to quality' in the form of cash. A severe credit crunch followed as financial institutions, unsure as to the levels of toxic waste that other financial institutions were holding, stopped lending to each other. The first bank to fail was Northern Rock in the UK, which was heavily dependent on lending from the wholesale market, and which in September 2007 experienced a run on savings before being nationalised (*ibid*.: 98). Northern Rock may have seemed like a little local difficulty in the north east of England; it was the bankruptcy of Lehman Brothers in mid-September 2008[13] and the bailout of AIG the following day that precipitated the global crisis.

The situation that followed was "unprecedented in global reach and systemic gravity" (Blankenburg & Palma 2009: 531). The global financial system very nearly collapsed as the banks, which were holding these securities off balance sheet expecting their rapid sale, had to bring them on to their balance sheets (Steil 2009: 9). This, in turn, led to a requirement to raise new capital to cover the markdown in their asset value, and hence to part-nationalisation of a number of banks as governments, once again, bailed them out.

Looking to the impacts of the financial crisis in the real economy, the IMF expected write-downs on US-originated assets by all financial institutions to reach $2.7 trillion over the period 2007-2010, and a decline in world economic activity of 1.3% in 2009 (Blankenburg & Palma 2009: 532). Stiglitz has suggested that the USA may experience a Japanese-style malaise with continuing high unemployment and that there may be the need for a further economic stimulus (2010: 53, 74). The EU's output was expected to contract by 3.4% in 2009 and the International Labour Organization estimated world-wide unemployment could rise by 30 to 50 million between 2007 and 2009, with more than 200 million people, mostly in developing countries, being pushed into poverty (*ibid*.: 532). In the developed world, the effects are felt most by workers and by small and medium-sized firms, giant corporations being largely insulated from such effects (Palma 2009: 860-1).

In summary, this section has offered an historical overview of capitalism and its financialisation, and the realisation of this in both capitalist businesses and in the behaviour of individuals. In this light, the recent global financial and economic crisis can be seen not as an anomaly, but as the inevitable outcome of a long established trend. The problems appear to be systemic; more than just a few rotten apples, the barrel itself may be rotten (Stiglitz 2010: xix). Although we have endeavoured to

offer a description, rather than a normative analysis, the events of the last century call into question the *doux*-commerce thesis, or at least suggest the ethical ambivalence of the capitalist system. This indicates that Hirschman was right in suggesting that an excess of depletion over replenishment in the moral basis of capitalist society would lead to a crisis. The question is whether we can now specify the conditions under which the system could gain in cohesion and legitimacy. It is to the solutions that have been proposed that we now turn.

III Responses – regulation or a new global economic ethic

One part of the response has been a debate about how to minimise the effects of the global recession and bring developed-world economies back to growth. This debate is readily polarised into Monetarists versus Keynesians, with the former arguing for the rapid contraction of public spending to bring public finances back into balance and the latter advocating 'big government' spending its way out of the recession.[14] This debate is important in the short term, but it also has long term implications. The concerns of this paper are with the longer term and the ethics that underpin it and responses here also fall broadly into two categories.

The regulatory approach

Unsurprisingly, a common and immediate response to the crisis has come in the form of proposals for tighter regulation of the financial system. In the UK this took the form of two major reports. The Turner Review, published in March 2009, focused on the banking system as a whole and on issues such as capital adequacy and liquidity, the assessment of overall system-wide risks and the power of regulators to impose restrictions on financial institutions if stability were threatened. It also contained proposals relating to credit rating agencies, remuneration policies, CDS trading and the enhancement of the supervisory approach of the Financial Services Authority. It was followed by the Walker Review, published in November 2009, which made recommendations on the corporate governance of banks and other financial entities. As well as covering familiar territory, such as board composition and operation, proposals on the degree of challenge which non-executive directors should exert on executives, the governance of risk and on remuneration were also featured.

Such an approach is understandable and, in the broader scheme of things, necessary. The underlying philosophy, however, was set out more clearly in a speech made by Mervyn King, the Governor of the Bank of England (King 2009). While acknowledging the need to focus, not just on the symptoms, but on the underlying causes of the crisis, he nonetheless also focused on reform of the structure and regulation of the banking system, paying particular attention to the 'too important to fail' problem noted above. His summary of the underlying causes is instructive. King asserted that the majority in the industry are "good men and women". The underlying problem, in King's view, seemed to be simply "a matter of the incentives they face".

The tighter regulation of the financial system is without doubt a necessary policy direction, (see Henderson 2009 and Stein 2009, for example), including perhaps the break-up of banks (Stiglitz 2010: 49, 164-5), leverage reform (Nielsen 2010: 317-8), and tighter corporate governance within the industry. Despite the huge regulatory effort, however, Palma (2009: 866), commenting on both the UK and US proposals for reform, observed that, "... it is rather depressing to see how the current Geithner-Summers plan for rescuing the US financial system, and the Brown-Darling one for the British system, have as their underlying vision that the post-crisis financial system will be more or less the same as it was before the 2007 crisis, although somewhat tamed by prudent market-friendly regulations". It seems, therefore, that the regulatory approach simply does not see the need for the more fundamental reform that the historical overview of capitalism and the global financial crisis

suggest. The diagnosis is simply too shallow for the prescription to be effective in the long term. It is, in other words, governance without ethics.

The new global economic ethic approach
We have already noted the ethical ambivalence of capitalism and the tension between its utilitarian and moral foundations. The alternative and more radical approach to reform might, then, be termed a new global economic ethic. In essence it has two components, the first of which argues for capitalism to be reordered, so that finance returns to its original function of serving rather than dominating economic development (Blankenburg & Palma 2009: 536; Crotty 2009: 576). This is a "back to the real economy" position (Foster & Magdoff 2009: 111ff) or what Stiglitz terms a return to the time when "bankers, and banking, were boring" (Stiglitz 2010: 81).

The second component of this approach is a new global ethic, which Kung (2003: 147) refers to as the need for a "moral ecology". On this account, there is a necessity for a new ethical framework to underpin a new economic order. A more recent formulation is to be found in the United Nation's 'Manifesto for a global economic ethic' (United Nations 2009), issued in the wake of the global financial crisis.[15] It identifies the "principle of humanity" as guiding the basic values for global economic activity which are listed as non-violence, respect for life, justice, solidarity, honesty, tolerance, mutual esteem and partnership. Its underpinning ethics are those of rights, a Kantian concern for others as ends, the Golden Rule, fairness and so forth. It claims to take seriously "the rules of the market and of competition", but to put these rules on a "solid ethical basis for the welfare of all".

It seems hard to disagree with such a clarion call: we are all for 'motherhood and apple pie'. It is, however, not at all clear that this approach to a global economic ethic takes seriously the powerful institutional forces inherent in capitalism, nor that its syncretistic approach to ethical theory provides a sufficiently robust or coherent framework within which to grapple with these issues.[16] The economic reorganization of capitalism outlined above has much to commend it, but the ethics that might underpin it seem to offer a utopian approach which falls short of what is needed to diagnose the problem and prescribe a solution. It is, in other words, ethics without governance. Can we, then, find a better ethical basis on which to ground an economic solution, one which combines ethics and governance?

IV Virtue ethics - a MacIntyrean diagnosis and prescription

Alasdair MacIntyre is well-known for his Marxist sympathies and his strong critique both of modernity in general and capitalism in particular (MacIntyre 1995, 2007). How, then, might his work have something to offer by way of diagnosis of the crisis of capitalism and by way of prescription for resolving it? Two fundamentally important aspects of his work (MacIntyre 2007: 273) offer assistance. The first is his concept of a tradition, the second his combined notions of goods, practices as they are institutionalised and an understanding of virtues as they relate to goods, practices, institutions and traditions. We begin with traditions.

Traditions
For MacIntyre, "A living tradition … is an historically extended, socially embodied argument, and an argument precisely in part about the goods which constitute that tradition" (MacIntyre 2007: 222). Traditions, if they are living ("for traditions also decay, disintegrate and disappear"), always embody "continuities of conflict" (*ibid*.: 222), and such conflict is essentially an extended narrative about the goods of that tradition. But such conflict takes two forms. There are external critics and enemies who "reject all or at least key parts of those fundamental agreements" of the tradition; and there

are internal debates "by whose progress a tradition is constituted", but which also have the potential to undermine it (MacIntyre 1988: 12).

This concept of a tradition helps to lay bare the history of capitalism outlined above. All traditions carry within themselves conflicts which arise as internal debates about the goods of that tradition. In capitalism's case, the debate over goods was 'captured' by those with the power to do so, not just the owners of capital, but also, and in particular, the managers and bankers of the system. Hence capitalism's metamorphosis into the financial variant of capitalism that we noted above, in which external goods came to dominate. As I have noted before (Moore 2005a: 239), there is a "continuing tendency to avarice as an inherent part of the capitalist system". There were, of course, challenges to this 'progress' both from within and without. But the demise of Communism robbed capitalism of an enemy from without (an alternative tradition) by which its own internal contradictions might have been revealed. Furthermore, it also obliterated the enemies within by forcing the demise of organized labour and by its intolerance of academic dissent to the 'orthodox' understanding of economics (see Palma 2009: 864-5).

MacIntyre maintains that it is only the ability of one tradition to provide better understandings of those conflicts and failings of other traditions than they can provide for themselves, that enables us to judge that tradition's rational superiority (MacIntyre 1988). But this can happen only through learning the language and rationality of the other tradition against which one aims to make one's claims. As Porter comments, "We might say that, on MacIntyre's view, the necessity for standing outside of any tradition whatever is obviated by the possibility of standing within two traditions at once in order to move between them in a comparative assessment of their claims" (2003: 53). And to stand within two traditions requires that we learn a "second first language" (MacIntyre 1988: 370-388, 403). However, with the demise of the obvious alternative to capitalism (in practice, if not in theory, as Communism became the victim of its own internal conflicts), one could argue that there is no longer a rival tradition and hence no "second first language" to be learned.

MacIntyre's notions of practices and institutions, internal and external goods, and the place of the virtues within them, however, may offer us the best opportunity to construct just such an alternative. It is to this that we now turn.

Practices, institutions, goods and virtues

MacIntyre's notion of a practice is now so well established in so many different literatures (see Beadle & Moore 2006) that it hardly needs further recitation. But it is important to the argument here and so is worth repeating. A practice is:

> "[a]ny coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity ..." (MacIntyre 2007: 187)

There are four central concepts in this definition. First, practices are social and cooperative activities. Second, the outcome of engagement in practices is the achievement of internal goods. MacIntyre later identifies internal goods with both the excellence of the products that result from the practice, such as "the excellence in performance by the painters and that of each portrait itself" (MacIntyre 2007: 189), and the perfection of the individuals in the process of such production (MacIntyre 1994: 284). Third, these standards of excellence have been determined historically by the community of practitioners – "practices always have histories" (MacIntyre 2007: 221). And, fourth, practices are systematically extended (are "transmitted and reshaped" (*ibid*.: 221)) through traditions comprising

the successive rounds of internal conflict about, amongst other things, its own standards of excellence.

Practices are widespread, indeed it could be argued that we spend much of our lives in them, since they include *inter alia* "arts, sciences, games, politics in the Aristotelian sense, the making and sustaining of family life" (MacIntyre 2007: 188). The virtues find their essential place in this schema because their deployment is the *sine qua non* for the achievement of the goods internal to practices:

> "A virtue is an acquired human quality the possession and exercise of which tends to enable us to achieve those goods which are internal to practices and the lack of which effectively prevents us from achieving any such goods." (MacIntyre 2007: 191)

Goods internal to practices, however, are not the only kind of goods, and MacIntyre contrasts them with goods external to particular practices such as survival, power, profit, reputation and, generically, success. When achieved these are "always some individual's property and possession. [They are] characteristically objects of competition in which there must be losers as well as winners" (MacIntyre 2007: 190). With internal goods, however, although there is competition in one sense, this is competition to excel and so benefits all members of the community engaged in the practice (*ibid*.: 190-191).

In order for internal goods to be realized, practices need to flourish. To do so, however, they require institutions. Institutions, on MacIntyre's understanding, are "characteristically and necessarily concerned with ... external goods. They are involved in acquiring money and other material goods; they are structured in terms of power and status, and they distribute money, power and status as rewards" (MacIntyre 2007: 194). But institutions serve a fundamental purpose: to be the "social bearers" (*ibid*.: 195) of practices, for practices cannot survive, at least for any length of time, unless they are sustained by institutions.

MacIntyre's description of institutions and their relationship with practices can be applied in almost any context, including those to which MacIntyre refers generically as "productive crafts" (MacIntyre 1994: 284). The argument here is that all business organizations may be re-described as practice-institution combinations (Moore & Beadle 2006). The particular practice may be fishing, or producing beef or milk, or architecture, or it may be banking or providing financial services (though banking and financial services on Marx's M-C-M' model). A common feature, however, is that all such activities fall within MacIntyre's definition of a practice as "any coherent and complex form of socially established cooperative human activity". A second common feature is that all such practices are institutionalized.

Following this, we can identify various features of a virtuous organization and, associated with this, the responsibilities particularly of senior management for ensuring that these features exist and are nurtured. The first requirement of a virtuous organization, in conformity with Aristotelian *teleology*, would be a good purpose for the particular practice-institution combination that it comprises. Second, the institution should be aware that it is founded on and has as its most important function the sustenance of the particular practice that it houses. From this, the organization should encourage the pursuit of excellence in that practice, whatever that may mean for the particular practice in question. Third, the institution should focus on external goods (such as survival, power, profit, reputation or success) as both a necessary and worthwhile function of the organization, but only to the extent necessary for the sustenance and development of the practice. Thus the achievement of an appropriate balance between internal and external goods stands as one of the key tensions in organizations. MacIntyre highlights this tension as follows:

> "the ability of a practice to retain its integrity will depend on the way in which the virtues can be and are exercised in sustaining the institutional forms which are the social bearers of the practice. The integrity of a practice causally requires the exercise of the virtues by at least some of the individuals who embody it in their activities; and conversely the corruption of institutions is always in part at least an effect of the vices." (MacIntyre 2007: 195)

Applying MacIntyre

How, then, might this description and application of these central parts of MacIntyre's framework enable a diagnosis of the historical account of capitalism outlined above? In part, it offers a critique of the tradition of capitalism as it 'progressed' in the 20th century and in the early years of this century. The corruption of business practices as they became dominated by the institutions that were their social bearers, and the pursuit of external goods that then became endemic, is laid bare. The corruption of institutions through the exercise of the vices (most notably avarice) became linked to senior managers failing to learn from the relevant history of the tradition (LTCM – see MacIntyre 2009) and failing to respect the standards of excellence in practices through fraudulent financial reporting (Enron and others). The corruption of institutions led to individuals similarly failing to respect and prioritise the practices in which they were engaged and to focus instead on capturing for themselves the external goods (executive compensation and bankers' bonuses). In summary, the whole tradition of capitalism and of how to 'do' business, went through a fundamental and unhealthy shift.

But also, as a MacIntyrean analysis would lead one to expect, the failure to possess and exercise the virtues ultimately led to the inability of practices to retain their integrity, and hence, in a number of cases, to the demise of the institution as it no longer fostered the practice on which it was founded (Enron, Arthur Andersen, Northern Rock, Lehman Brothers, AIG and others). MacIntyre's warning, originally made in 1981, was prescient but ignored:

> "What then sustains and strengthens traditions? What weakens and destroys them? The answer in key part is: the exercise or the lack of exercise of the relevant virtues. The virtues find their point and purpose not only in sustaining those relationships necessary if the variety of goods internal to practices are to be achieved ... but also in sustaining those traditions which provide both practices and individual lives with their necessary historical context. Lack of justice, lack of truthfulness, lack of courage, lack of the relevant intellectual virtues – these corrupt traditions, just as they do those institutions and practices which derive their life from the traditions of which they are the contemporary embodiments. To recognize this is of course also to recognize the existence of an additional virtue, one whose importance is perhaps most obvious when it is least present, the virtue of having an adequate sense of the traditions to which one belongs or which confront one." (MacIntyre 2007: 223).

But if the argument above is correct, a MacIntyrean analysis also holds out a potential prescription. And this is a prescription that is more than simply a general plea for individuals to cultivate the virtues and apply them as much at work as in other areas of their lives (ethics without governance), or a regulatory approach that fails to impact upon individuals' ethics (governance without ethics). The interplay between practices and institutions suggests that, at the organizational level, what is required is an institutional framework that is conducive to the exercise of virtues inside practices. Generically, this framework constitutes what is otherwise known as governance.[17] But up to now virtue ethics lacks a sufficient account of what an appropriate framework for the governance of virtue in organizations might look like.[18] It is to this that we now turn.

V The governance of virtue

Governance and virtue may seem unlikely bed-fellows. And, indeed, there is evidence that governance or, perhaps more generically, control 'crowds out' virtue. Thus, individuals' intrinsic motivation to contribute to the common good can be crowded out if they perceive the environment to be controlling (Osterloh & Frey 2004: 195). Examples from field studies include the crowding-out effect of paying donors to give blood (*ibid*.: 199), a reduction in the amount of charitable donations collected when children were promised that they could keep a proportion of the money collected (Fehr & Falk 2002: 709-10), and a reduction in acceptance levels when payment was offered by way of compensation for building a nuclear waste repository in the community (Frey & Oberholzer-Gee 1997). The effect of seeking to control behaviour by means of extrinsic motivation or payment seems to crowd out individuals' intrinsic motivation to cooperate. They "no longer consider the question from the moral point of view, but rather examine it from the standpoint of their self-interest" (Heath 2009: 515).

The question that then arises is whether governance systems can be designed that 'crowd in' virtue. While some of our previous work (Moore 2005b, 2008; Moore & Beadle 2006) has identified the governance implications of an ethic of virtue based on MacIntyre's conceptual framework, this has largely been based on logical assertion. Before reconsidering this work, we need to turn to empirical evidence that provides us with several other relevant insights. And in doing so, it is worth noting how important empirical study is to MacIntyre himself as a means of providing examples from which we can learn and which "illuminate the relationships of practices and institutions to each other and to the human good" (MacIntyre 2008: 6). Thus, we should expect to be able to draw from appropriate empirical studies to reinforce, nuance or possibly challenge MacIntyre's work.

Aside from field studies, the majority of the evidence on how to 'crowd in' virtue comes from extensive laboratory experiments known generically as social dilemma games.[19] These are "essentially experimental applications and elaborations of n-person prisoner's dilemma or collective action problems" (Maitland 2008: 6-8).[20] As usual with such games, cooperative behaviour maximises collective returns, but it is always in the interest of any individual subject to free-ride on others' contributions. What do such studies tell us?

First, these studies distinguish three types of players. At the virtuous end of the scale are "strong reciprocators" (Gurerk et al. 2006), who tend to make high contributions and are willing to punish those who do not, even though this may involve incurring personal losses. It seems that strong reciprocators typically represent around 15% of the population. At the opposite end of the scale are the free-riders who may make up around a third of the population. In between are "conditional cooperators" (Fehr & Falk 2002: 692, Fehr & Gachter 2000a: 984) who make up the remainder, typically around 50%. These conditional cooperators may go either way. If they see others free-riding they may free-ride themselves; if others cooperate they will, in turn, cooperate. Reciprocity is, therefore, "a rather stable behavioural response by a nonnegligible fraction of people that can be reliably elicited under appropriate circumstances" (Fehr & Gachter 2000b: 163). But the key to getting them to reciprocate positively is the strong reciprocators' steadfastness in punishing free-riders: "Although strong reciprocators are a minority, they manage to establish and enforce a cooperative culture that attracts even previously noncooperative individuals and thus resolves the social dilemma" (Gurerk et al. 2006: 110).

A feature of these games is the option to sanction both free-riders and also cooperative players who do not themselves sanction free-riders. Such punishment can be applied both negatively (sanctioning free-riders and conditional cooperators, as above) or positively (rewarding cooperation). In practice the former is both more common and more effective (Gurerk et al. 2006:

110). Another feature in such games contrasts behaviour in relation to partners and strangers (Fehr & Gachter 2000a, 2000b; Blair & Stout 2001). Unsurprisingly, cooperation with partners is stronger and results in higher contribution levels (Fehr & Gachter 2000b: 167). Thus group identity is important: "players who perceive their fellow players as members of their own "ingroup" are more likely to cooperate than individuals who see themselves as playing against members of an "outgroup"" (Blair & Stout 2001: 1771).

Why do strong reciprocators punish free-riders when it is not in their own self-interest? The answer seems to be partly altruism, revealed in the form of altruistic punishment, and partly the strong emotions generated by free-riders. Free-riders trigger high degrees of resentment (Fehr & Gachter 2000b: 165) and anger amongst other participants although, interestingly, free-riders themselves expect the anger of these other participants to be greater than it actually is (Fehr & Gachter 2002: 139). People punish free-riders "not for what they did to the punisher but for what they did to others" (Fehr & Fischbacher 2003: 786). But this is effective in changing free-riders' behaviour only if they exhibit shame when their action is disclosed, and that requires "at least some minimal intrinsically motivated commitment to the rules. Purely extrinsically motivated persons do not feel any shame" (Osterloh & Frey 2004: 196). There is some evidence, however, that even free-riders can be brought to heel (Gurerk et al. 2006: 110).

This brings us back to the issue of intrinsic versus extrinsic motivation. Fehr & Falk (2002) discuss three important human motives that interact with economic incentives: the motive to reciprocate, the desire for social approval and the desire to work on interesting tasks. We have seen the first two of these already. In relation to the third, they comment that, while many work tasks may not be intrinsically rewarding, some are: "people directly derive pleasure from the activity and, over some range, the pleasure increases with increases in the activity level" (*ibid*.: 713). But Fehr & Falk also note that in many circumstances both intrinsic and extrinsic motivations will be present, so that, at its simplest, the work itself and the pay are both motivators, though the extent to which one might be more important than the other may be hard to identify (*ibid*.: 714).

This, of course, brings us back to the issue of executive pay. Frey & Osterloh note that several studies have failed to find a linkage between executive pay and firm performance: indeed, "less than 5% of CEO pay seems to be explained by performance factors", and thus "CEO pay reflects managerial rent-seeking behaviour rather than efficient incentives" (2005: 98). One effect of this is that employees will be less willing to cooperate if "they observe that their superiors feather their own nests" (*ibid*.: 104). They therefore propose that more emphasis be given to fixed salaries for senior managers (Osterloh & Frey 2004: 205-6). This will reduce the crowding out of pro-social intrinsic preferences by reducing the likelihood that managers will switch to a purely calculating mode and by encouraging other employees (many of whom will be conditional cooperators) to support corporate virtue as they see their managers doing the same. Frey & Osterloh (2005: 104), citing Bucklin & Dickinson (2001), also note that, "on average, it is sufficient to pay a very small percentage of variable pay – as low as 3% of a person's total pay – to increase their performance appreciably". In addition, nonmonetary reinforcers such as feedback have been shown to be effective in improving performance (Bucklin & Dickinson 2001: 63).[21]

Others have suggested that any performance-related element should be tied to long-term performance (Nielsen 2010: 319-321), and that bankers, for example, should share in any losses and not just in gains (Stiglitz 2010: 155). However, Mintzberg (2009) has argued that the difficulties of actually measuring long-term performance, and linking it to the actions of particular executives, make bonuses a lottery. He also argues, in line with Osterloh & Frey (2004), that bonuses effectively reinforce a kind of class structure within a firm which makes executive payment's symbolic function antithetical to effective functioning. It sends all the wrong signals to everyone else in the enterprise,

a concern that Mintzberg also shares with Drucker (see Donaldson 2009: 45). Mintzberg (2009) further suggests that paying bonuses means that a firm gets the wrong kind of person ("a self-centred narcissist") as a CEO. He therefore backs calls for all bonuses to be scrapped, and that executives should buy shares in their own companies if they back their own performance.

VI Governance systems that crowd in virtue

How, then does this body of work contribute to the design of governance systems that tend to crowd in rather than crowd out virtue, and so make MacIntyre's prescription for more virtuous corporations, as practice-institution combinations, more realisable? Combining the above with Osterloh & Frey's work (2004: 204-207) which addresses the question of governance systems directly, with proposals from Maitland (2008), and with our previous work leads to the following eight parameters:

First, there needs to be a consideration of the purpose of the organization (Moore 2010b). At the most senior level of governance, there will be a need to address the goodness of purpose of the organization. This is the extent to which the internal goods of the practice at the core of the organization (both the excellence of the product or service and the perfection of the practitioners) contribute to the overriding good of the community. To ensure that this is the case, however, there will need to be a continuing debate within the organization, and ideally between the organization and the community or communities of which it is a part, as to what the community's good is and how the organization's internal goods contribute to it.

Second, appropriate governance systems require that employees with pro-social intrinsic preferences are selected (Osterloh & Frey 2004: 204-5). We (Moore & Beadle 2006: 376) also identified this as a precondition for organizational virtue, but specified it as applying to agents at both practice and institutional levels, not just to managers. I have also noted previously (Moore 2008: 504) that it is not only the selection, but also the nurturing of employees that is important. Hence, character assessment and development in employees is the second parameter. At the managerial level this should give rise to managers who "do not allow their personal advantages and biases to enter their decisions" (Frey & Osterloh 2005: 105).

Third, attention needs to be given to job design, so that intrinsic motivation is built in to the greatest extent possible. There is a tendency to de-skill and routinise jobs at 'lower' levels. But it is in the core practice of the organization that employees (practitioners) find the greatest opportunity to engage in the practice, exercise virtue, pursue excellence and so produce good products and perfect themselves in the process (Moore 2005a). At senior levels, engaging in the practice of making and sustaining the institution ought to provide such practitioners with similar opportunities (Moore 2005b, 2008).

Fourth, executive pay needs to be curbed. Largely fixed and fair salaries need to become the norm. This is not just a matter of limiting any performance-related element, but also of constraining the absolute level of executive pay. One recent report suggests a maximum ratio of 75:1 between the total remuneration package of executives and the lowest 10% of employees (Higginson & Clough 2010). In so doing, the actual and perceived lack of self-interest in those at the top should give rise to a further benefit – the increased legitimacy to manage employees which can be undermined by self-serving behaviour (Frey & Osterloh 2005: 105).

Fifth, Osterloh & Frey (2004: 206-7) propose that decision-making processes are designed to strengthen participation and self-governance. Similarly, I have previously indicated (Moore 2005b)

that virtues find their institutional embodiment in power-balanced structures that ensure that the views and desires of particular constituencies are not privileged over those of others and in decision-making systems and processes that enable rational critical dialogue to counter biases and allow questioning of the hitherto unquestioned (MacIntyre 1999: 313). This requires carefully-designed systems of participation and self-governance examples of which may be found more readily in the Germanic form of capitalism (Keat 2008).[22] How might such systems of participation and self-governance relate to the punishment aspect of social dilemma games? As noted, negative punishment tended to be more effective than positive punishment, but the idea of enabling employees to effect sanctions may sound as though it could lead to vigilante-type behavior and scapegoating.[23] Osterloh & Frey (2004: 206), however, suggest that it is easier for colleagues to identify those who break the rules, and that informal admonishment may be all that is needed. Designing such systems is clearly not straightforward. Space here precludes more detailed consideration, but the design principles, at least, are established.

Sixth, Maitland (2008) suggests that trusting employees by (largely) abstaining from monitoring job performance will be an important element of crowding in virtue, since "low levels of legal contract enforcement crowd in trustworthiness" (Osterloh & Frey 2004: 203). Trusting employees is, however, only one part of the equation, for trust and trustworthiness are typically secured through reciprocal relations. Managers must cultivate trust in employees, and the standard way of achieving this is for managers to be trustworthy themselves (Heath 2009: 516). As with executive pay, this takes us into the arena of intrinsic versus extrinsic motivation, or what Ariely (2008) calls social versus market norms. Social norms differ from market norms and imply long-term relationships in which employers stand by their employees when they are sick or redundancies threaten (see Ariely 2008: 80-84). Being trustworthy in situations such as these generates trust in employees who will generally respond (again, there are likely to be a few free-riders) in a cooperative manner not based on a calculating market norm style. As with organizational structure, this may be effected by an organization going "out of its way to downplay its hierarchical structure" (Heath 2009: 516).

Seventh, it will be important to encourage group identity. We noted the positive effect of group identity in social dilemma games in encouraging cooperation. While 'ingroup' versus 'outgroup' terminology might seem to have similarly worrying connotations as employees effecting sanctions themselves, the overall effect of ensuring that all employees feel part of the ingroup should be positive. As with many of these eight parameters, this is likely to be linked with others. An organization which has a good purpose, recruits and nurtures virtuous employees, pays fair and largely fixed salaries, encourages participation and self-governance, and has a trusting and trustworthy character will find encouraging group identity easier than one which tends not to have these features.

Finally, a governance system that crowds in virtue will be one in which transparency is paramount. Stiglitz (2010: 156) notes this in relation to big issues such as disclosures on balance sheets of all the liabilities a firm has.[24] But at all levels, transparency is key if other parameters such as pay, the governance and decision-making structure itself, methods of sanction and encouragement of group identity, are taken seriously and cooperation encouraged. Thus, internal transparency is necessary to ensure employees are more likely to direct their conditional cooperation positively, and external transparency, such as in the provision of social accounts (see Hess 2007), will also be required. Internal transparency will be enhanced by personal contacts and communication that reduces the "social distance" between members of the organization (Frey & Osterloh 2005: 105). This, in turn, will assist with encouraging group identity.

None of the above implies that governance systems should be based entirely on intrinsic motivation. Both intrinsic and extrinsic motivational factors will be present in any situation. And as Heath (2009:

522, emphasis in original) notes, in relation to the negative aspect of motivation, "while the presence of external sanctions can have the effect of undermining moral motivation, the *absence* of external sanctions can also have the effect of unravelling cooperation (as those who have acted cooperatively in the past become less willing to do so, when they see others defecting with impunity)". Thus, as always, it is a question of judgment in getting the balance between internal and external motivation (and sanctions) right.

We can, of course, relate these parameters back to MacIntyre's practice, institution, goods, virtues framework. They amount to an approach to governance at the institutional level which prioritises the core practice over the institution by focusing on the intrinsic value of the practice. Having such a governance system would allow a focus on internal goods, particularly the excellence of the product or service and the perfection of the individual practitioners. The parameters downplay, without ignoring, extrinsic motivations – in other words, they seek to enable the correct balance between internal and external goods. And they encourage the possession and exercise of the virtues to enable excellence in both practices: that at the core and the practice of making and sustaining the institution itself in any organization. Together, these offer a set of parameters that would help make MacIntyre's prescription a reality. The Anglo-American capitalist tradition as it has developed would itself be reformed, such that the internal contradictions of how to 'do' business would largely be avoided as virtue is crowded in.

Do such parameters, however, stand up to the utopian charge directed against the new global economic ethic? In one sense, as MacIntyre (2008: 6) has argued, "it is important to respond by saying 'Yes, that is exactly what [they] are". But this is a utopianism of the present rather than the future. Future utopianisms almost invariably require a "sacrifice of the present to some imaginary glorious future", whereas a utopianism of the present refuses to make such sacrifices, while insisting that "the range of present possibilities is always far greater than the established order is able to allow for" (*ibid*.: 6).

The parameters set out above present just such a range of possibilities, but to see these implemented would clearly require a significant transition. To some extent this would depend upon resources already available within the corporation: responsible shareholder activists (O'Rourke 2003) and virtuous senior managers acting in concert as 'strong reciprocators'. But this is unlikely to be sufficient; such a change would almost certainly require more than the resources corporations have at their disposal. Thus, while not overriding shareholder rights or the managerial prerogative, other important actors would be governments, non-governmental organizations, trades unions particularly in support of members most affected by the recent crises, professional bodies, other moral actors such as religious organizations, and academia in both its research and teaching roles. An important part of this is the further study and promotion of forms of capitalism more conducive to a MacIntyrean vision than to the Anglo-American version criticized here. The aftermath of the shock which nearly brought the global system to collapse, coupled with the actions of these multiple actors, including concerned actors within corporations, will be required to bring about the necessary sea change in corporate action.

Conclusions

We noted at the beginning that Hirschman (1982) identified the possibility that both the *doux*-commerce and self-destruction theses of commerce might operate simultaneously. His observation, that an excess of depletion over replenishment of (what we might now call) the virtues would lead to a crisis of the system, seems to have been borne out by the events of the last century at systemic, organizational and individual levels.

We have identified MacIntyre's critique of capitalism via the lens of virtue ethics, both through his understanding of traditions and how traditions find their contemporary embodiments in practices and institutions. That the tradition of capitalism has within it the seeds of its own destruction, and that these very nearly brought the system down, seems to be the case. But we have also identified that a MacIntyrean prescription, reinforced with empirical evidence, offers a way forward that is richer, and arguably more practical, than the regulatory or the global economic ethic approaches.

The eight parameters presented here are, of course, only part of the solution. Much is needed by way of change at the macro-economic level, and reformed governance at the systemic level will also be required. The argument, however, is that such changes will themselves be unsustainable unless the organizations of a much-reformed Anglo-American capitalism are also reformed. But for this to happen we need to design such organizations so that they crowd in, rather than crowd out, virtue. This paper has offered a detailed account of how such governance systems may be designed. And in doing so, it therefore makes a contribution to the other side of Hirschman's equation, in specifying some of the conditions under which the system would gain in cohesion and legitimacy.

And, to end with the quotation with which this paper began, perhaps in so doing, virtue may be triumphant – and not only in theatrical performances.

Notes

I would like to thank Ron Beadle and Mark Hayes who commented on an earlier version of this paper, together with Alejo Sison, Joan Fontrodona and Edwin Hartman as Guest Editors, and the four anonymous reviewers who provided such constructive feedback. Much of the background research and initial drafting of this paper took place while I was on sabbatical leave at the Kenan Institute for Ethics, Duke University, NC, USA and I would like to express my gratitude for the conducive environment which was provided for me there.

1. Spoken by the Mikado in Gilbert & Sullivan's operetta of the same name.
2. The term seems to originate with Gilbert Ryle in an essay entitled 'The thinking of thoughts'. See Ryle (1971: 480-496).
3. I focus here on the USA as the pre-eminent capitalist economy.
4. Armour & Skeel (2007: 1738) cite figures of 0.85% and 0.57% for the UK and USA respectively over the period 1990-2005.
5. Macey (2008: 122-126) also identifies ways in which management has sought to protect itself from hostile takeovers by various legal impediments including poison pills.
6. Some evidence suggests that anti-takeover provisions destroy shareholder wealth (Howton et al. 2008: 324-5), while other evidence is more equivocal on the benefits of takeovers to shareholders (Armour & Skeel 2007: 1739-40).
7. Moral hazard arises in this instance because the more interventionist the central authorities are, the more market participants are encouraged to take risks, believing government will limit possible losses (Nielsen 2010: 314).
8. Arbitrage is profiting from differences in prices or yields in different markets, such as short-term differences in interest rates which are expected to be corrected. Arbitrageurs thus buy a commodity, currency, security or any other financial instrument in one place and sell it immediately in another at a higher price to a ready buyer completing both ends of the transaction usually within a few seconds. Hence the claim that LTCM would function like a giant vacuum cleaner sucking up nickels that everyone else had overlooked.
9. I am grateful to a reviewer for pointing out that the US tax deduction limit to base salaries of $1 million had a pivotal effect on the rise of performance-based compensation, and SEC requirements to disclose compensation led to comparisons among CEOs which may also have had a major impact.
10. Other examples include, in 2008, 700 Merrill Lynch employees receiving bonuses in excess of $1 million from a bonus pool of $3.6 billion despite the fact that the firm lost $27 billion. Even AIG's Financial Products unit, which lost $40.5 billion in 2008 and was 80% owned by the US government, paid 377

members of its division bonuses averaging over $500,000 per employee (Crotty 2009: 565). The Royal Bank of Scotland, which is now 84% owned by the UK government, recently received approval to award £1.3 billion in bonuses despite losses of £3.6 billion in 2009 and £24 billion in 2008. See http://news.bbc.co.uk/2/hi/business/8528268.stm, accessed 27th January 2011.

11. Mortgage-backed securities are claims to shares of the sum of the regular payments of principal and interest associated with the individual mortgages.
12. It was inexperience and high exposure to CDSs that led to the problems at AIG (Henderson 2009: 5).
13. Stiglitz (2010: 219) suggests that the collapse of Lehman Brothers was to market fundamentalism what the fall of the Berlin Wall was to Communism.
14. See, for example, letters from two camps of economists in the UK: http://www.timesonline.co.uk/tol/comment/letters/article7026234.ece, published 14th February 2010, and http://www.ft.com/cms/s/0/7beb9b0e-1cdd-11df-8d8e-00144feab49a.html, published 18th February 2010. See also Crotty (2009: 577) and Foster & Magdoff (2009: 139) for more on the Keynesian approach.
15. This is itself based on an earlier 'Declaration toward a global ethic' produced by the Parliament of the World's Religions (1993). Hans Kung has been instrumental in both documents.
16. A more sophisticated and detailed exposition of a new global economic ethic is found in Pope Benedict XVI's Encyclical Letter, *Caritas in Veritate* (2009). It incorporates, as would be expected, a critical anthropology but is equally sceptical of the efficacy of structures and institutions (see Breen 2010: 1021-23). There are similarities with the MacIntyrean approach which I outline here, not only in relation to the role of institutions, but also in the proper role of profit (an external good in MacIntyre's terminology) with "the common good as its ultimate end" (Pope Benedict 2009: para. 21). There are, however, suggestions of the 'ethics without governance' approach, for example, " … a world in need of profound cultural renewal, a world that needs to rediscover fundamental values on which to build a better future" (*ibid*. para. 21). The fundamental ontology – man (sic.) as a creature of God (*ibid*.: para. 29) – is different from MacIntyre's secular starting point, and MacIntyre's analytic framework leads more readily to policy and practice outcomes (see note 18), as the remainder of this paper seeks to demonstrate.
17. I use the term generically to apply to both corporate governance (related to shareholders, executives and directors) and to internal governance within the firm. It is also quite possible that this analysis may apply to organizations other than corporations, although corporations are obviously the focus of this paper.
18. Breen (2010: 993-4 and 1015) notes that Pope Benedict XVI's Encyclical Letter does not stray beyond its own areas of competence into policy prescriptions and, in particular, "does not specifically suggest how to adjust the corporate form to internalize values other than profit maximization".
19. Much of this empirical work has been conducted at the Institute for Empirical Research in Economics based at the University of Zurich.
20. I am very grateful to Ian Maitland for his paper on 'Virtue or control in the governance of the firm' (2008) which made me aware of this area of study. The paper is, to my knowledge, unpublished.
21. The studies on which these findings are based are focussed on relatively junior employees on piece-rate schemes. As such, any comparison with incentives for executive pay needs to be made with some caution.
22. Keat (2008: 80-82) explores this specifically in relation to MacIntyre's work and notes how the German version of capitalism in particular, which he refers to as a horizontal coordinated market economy, differs from liberal market economies typified by the UK and USA. On the basis of this analysis, he argues that coordinated market economies of the type represented by Germany "are positively conducive to a practice-like conduct of production" (*ibid*.: 83) and hence that MacIntyre's critique of capitalism is directed at "a specific *kind* of capitalism" (*ibid*.: 78) and not capitalism in general.
23. René Girard's work on mimetic desire and scapegoating is instructive here. For a summary and application to organizations see Desmond & Kavanagh (2003) although these authors mainly note the role of organizations in constraining such violence.
24. Stiglitz questions how Lehman Brothers could report a "net worth of $26 billion shortly before its demise, and yet have a hole in its balance sheet approaching $200 billion" (2010: 156).

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