Introduction and acknowledgements

I suppose that most people write to convey information and knowledge they already possess. I write primarily to begin to learn about something that interests me; as part of an effort to try to make sense of matters which everyone else may be talking about, but – to my mind – rather aimlessly and without reaching any robust conclusions. This was how I started my research on corporate governance. (To what extent I still am very much of a novice or learner in the field, even after finishing this book, I leave to the kindly reader to respond.) Once more, to guide me in my inquiry, I chose Aristotle, particularly his treatise on *The Politics*. In the same way that my previous work, *The Moral Capital of Leaders. Why Virtue Matters* could be considered a reading of Aristotle's *Nicomachean Ethics* addressed to a business audience, this present volume may be taken as a digest of *The Politics* for members of corporate boards and directors of organizations.

The first two chapters identify my point of departure, that is, the dominant, commonplace understanding both of the firm – a ‘money-making machine’ – and of corporate governance – compliance by ‘box-ticking’. I challenge this peacefully accepted and widespread notion of the firm by presenting a case that serves as a counterexample: *Tasubinsa* certainly seeks profits, but only in a manner subservient to its main goal, the complete social integration of the mentally handicapped who constitute more than 90 per cent of its workforce. To be sure, this single case would not be enough to topple the prevalent and long-established model, yet, at the very least, it could still raise serious doubts while opening up space for the development of a new theory of the firm. Any business organization should exist, above all, in order to contribute to the common good of society. Rather than as a machine, a company should be thought of as a community of workers who seek their own integral human development by producing the goods and services that society needs. Profits should be regarded as a supervenient prize for a job well done, not something to be gained at all costs, regardless of the means. As for the box-ticking corporate governance model that Sarbanes–Oxley has set, perhaps the strongest argument against it lies in the fact that Enron itself could have been essentially a Sarbanes–Oxley-compliant company. Conformity with the welter of purely formal structures, rules and procedures obviously was not sufficient to prevent the company's meltdown, covered in a haze of financial and managerial scandals. The

problem lay, not in the form, but in the substance, in the lack of moral integrity of those ultimately entrusted with the company's direction.

Necessary for constructing my argument is the recognition that 'governance' comes from 'government' and, as such, is normally associated with the running of a state. It was in this context that Aristotle developed his treatise on *The Politics*. Chapters three and four represent the effort to extend the meaning of 'government' analogously from its original turf in Greek city-states to the realm of modern corporations, including multinational enterprises. The comparison is carried out on a triple basis: the people who comprise them, their forms of organization and the specific ends they pursue. Special attention is directed to the notion of citizenship as it applies not only to the business organization or firm as a whole (corporate citizenship) but also to the different shareholders and stakeholder groups as citizens of the corporate polity.

In continuation, chapters five to seven flesh out the analogy between different state and corporate regimes, using Aristotle's classification grounded on a twofold criterion: the number of rulers and whether those rulers seek the common good or their own individual good. Each kind of regime is later on exemplified by an actual corporation: Fiat (corporate tyranny), Cheung Kong Holdings and Whampoa Limited (corporate monarchy), Abelardo Investment and Manufacturing Corporation/AIMC (corporate oligarchy), Banco Popular Español (corporate aristocracy), United Airlines (corporate democracy) and IDOM Engineering Consultancy (corporate polity). Corporate narratives come from the world over – Italy, China, Philippines, Spain and the United States – and they stand for a variety of sectors, from the automotive industry through finance, flour-milling and real estate to airlines. Furthermore, companies come in all sizes, from relatively small, family-owned ones to huge publicly listed multinational corporations, leaders in their field.

Chapter eight brings together some concluding remarks on the true nature of corporate governance, now envisioned to be a form of Aristotelian *praxis* (roughly, 'practice'). Steps are outlined to initiate an authentic and effective corporate governance reform premised on the education of board directors, particularly on the ethical and political aspects of their function. It is indeed remarkable that, in the end, the secret of good corporate governance can be found in the governors' education in the virtues, for, without the virtues, neither the goods nor the objectives that a corporation should seek could be properly identified, nor the rules, procedures and structures it should follow correctly formulated, interpreted and implemented.

Perhaps unconsciously, the majority of prescriptions for corporate governance reform draw inspiration from a political theory obsessed with finding justifications for the uneven distribution of power, and hence, one that is constantly looking for ways to avoid abuse. Ultimately, what this

political theory endeavours to do is to prevent one party from eliminating the others, simply because of divergent views of the good. The solution proposed consists in the rules of procedural justice. Purportedly, we cannot help but arrive and agree on them, departing from an original position of ignorance regarding our own particularities and preferences. Abstract reason and a desire for equality are the only useful guides. Another version of this theory insists on a fundamentally market-based approach to sort out our differences, without having to renounce them. After all, in a properly functioning market, needs are satisfied and conflicts resolved, not through the use of power but through free exchange. Moreover, personal beliefs are kept safe because they are apparently of no interest to other market players. Nonetheless, sufficient experimentation has been carried out with these alternatives to realize that they lead to a dead end.

Classical political theory, on the other hand, inquires above all about the best regime in the understanding that that would represent the best life for man, who is by nature a social creature. Such a regime not only allows for the satisfaction of material, external goods, but, more importantly, it permits citizens to develop themselves spiritually and internally, that is, to acquire and to perfect the requisite human virtues or excellences. This is what good government consists in; not in the mere provision of material goods or in the mechanical observance of purely formal and procedural rules. Good corporate governance should not be very far from this. It comes as no surprise, therefore, that classical political theory emphasizes the education of the prince as its main concern. In the corporate context, we would do well to take the cue and concentrate before anything else on the ethical and political education of corporate rulers, board members and directors.

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