



How to Recover Practical Wisdom in Corporate Governance: A Proposal from MacIntyre

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This is an unpublished conference paper for the 5th Annual Jubilee Centre for Character and Virtues conference at Oriel College, Oxford University, Thursday 5th – Saturday 7th January 2017.

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Introduction

Implicit in the title of my proposal is the idea that practical wisdom has been lost in corporate governance. By “practical wisdom” we mean something oftentimes rendered as “prudence”, “practical reason” or “practical rationality” in more general language, applied to wider areas of ethics, economics, politics and social relations. However, none of these purported equivalents really hits the mark with respect to meaning, and this in itself is symptomatic of how adrift we happen to be. Not only has practical wisdom been lost; it seems like we don't even know exactly what it means either. In fact, each of the above-mentioned terms, coming from a different intellectual provenance, carries its own share of unwanted conceptual baggage. Dictionary entries for “prudence”, for instance, refer primarily to a careful regard for one's own future interests. It then becomes a synonym of “calculation”, the disposition to obtain a return as huge as possible from a small outlay or investment or the willingness to benefit handsomely even at the expense of others. Now that's not what one would expect in the description of a purported human excellence or virtue.

This article would like to contribute to the recovery of practical wisdom in corporate governance with the help of insights from Aristotle and MacIntyre. Thus, the essay is structured according to the following sections. The first part is an explanation of the virtues (*aretai*) in general, the virtue of practical wisdom (*phronesis*) in particular and its major differences with the contrary vice of craftiness (*panourgia*). After that comes the proposal of collaborative production in its subjective and objective dimensions as the proper end and common good of the business corporation. In third place is an account of corporate governance in accordance with the MacIntyrean categories of “practices” and “institutions”. And lastly comes an illustration of how corporate governance thus understood satisfies the other requirements of genuine virtues in terms of embeddedness in individual biographies and in traditions of communities.

I. The virtues (*aretai*), practical wisdom (*phronesis*) and craftiness (*panourgia*)

If we were to take Aristotle’s definition in the Nicomachean Ethics (henceforth NE, 1144a) as starting point, by “practical wisdom” (*phronesis*) we are to understand the virtue or “excellence” of choosing the suitable means to the right end. Admittedly, “practical wisdom” isn’t the best translation for *phronesis* either, given that *sophia*, the paramount intellectual or theoretical virtue of knowing things in their first principles and final ends, is also usually rendered as “wisdom” (NE 1141a). This translation, therefore, may lead to a confusion between a “theoretical wisdom” (*sophia*) and a “practical wisdom” (*phronesis*). But that is not all, because there is still another practical human excellence besides *phronesis*, one concerned with making things, the “productive skill” or *techne* (NE 1140a). In contrast to this, “practical wisdom” or *phronesis* then refers to right action limited to the moral sphere, to doing things. The

difference between these two practical virtues, *techne* and *phronesis*, is the same one between excellence in making and in doing.

Thus, to grasp the proper meaning of practical wisdom, we first need to understand what these human excellences called “virtues” (*aretai*) are (Ferrero and Sison 2014). Although mainly applied to character and character traits (NE 1106a-b), virtues are, in fact, desirable “multi-track dispositions” (Hursthouse 2013) found in certain persons indicating a particular mindset and capacity for action. Thus, virtues could also refer to habits (NE 1103a-b), the actions (NE 1098a, 1111a) from which these habits derive, and the core inclinations or tendencies (NE 1105a) that are the source of those actions. They are stable, almost permanent states that individuals voluntarily and deliberately acquire through their behavior or conduct in accordance with right reason. Similarly, virtues could designate certain kinds of people and the lifestyles they lead (NE 1095b-1096a). It is important to realize, furthermore, that these different operational levels or “tracks” where virtues are found are interconnected through some sort of feedback mechanism, such that whatever occurs in any one of them has repercussions on all the others. For instance, an individual who exercises moderation in food and drink would most likely be able to control tastes and cravings, practice discipline in other areas such as work, keep an orderly schedule or program of activities and live a healthier life, all told. That is because virtues reinforce similar tendencies on the various operational tracks. They produce an alignment among right perception, right desire, right thinking and right action.

Moreover, virtues as “excellences” are “desirable” because they enable individuals to reach flourishing (*eudaimonia*) (NE 1095b-1096a), which is the ultimate human good and final end. In this sense, not only do virtues satisfy right and reasonable

preferences, but they also “perfect” or “make whole”, morally speaking, the people who develop them. Flourishing (*eudaimonia*), also sometimes called “happiness”, is the one thing all human beings desire in itself (that is, not as a means to another), in reference to which everything else becomes desirable. Virtues are thus a necessary condition for human flourishing.

What are the distinctive features of practical wisdom (*phronesis*), for want of a better term, as a virtue? As mentioned earlier, first and foremost is its practical orientation as a moral virtue (NE 1103a) towards doing the right thing the right way. Here is where it diverges from *sophia*, which is wisdom, but theoretical, not practical; and *techne*, which is practical, but concerned with making, not doing. Practical wisdom (*phronesis*) is the virtue of doing the right thing. This implies that practical wisdom deals with particular or concrete realities, not universal or abstract ideas; these are contingent events that may or may not occur, and if and when they do, they may happen one way or another (NE 1139a). That is why practical wisdom involves deliberation and choice or decision-making (1140a-b). One does not deliberate over what is already given as a necessity (for example, death and taxes, according to some). Neither does one choose when there is just a single option available; decisions, in order to be meaningful, require both freedom to choose among multiple options and rationality in the agent. Besides thoughtful deliberation and making the right choice for the right reason, practical wisdom also entails following through with the decision into the right action or behavior, bearing in mind the circumstances. Without this final step which ensues in the appropriate action there is no practical wisdom because the practice is incomplete: nothing is done. Practical wisdom, therefore, establishes a certain harmony among rational deliberation and choice, taking into account the different options, and opportune

behavior or action, with the relevant consideration or perception of particulars surrounding the event.

A second feature of practical wisdom is its normativity, in the sense of bearing a command or a prohibition, but in a way that goes beyond rules and rule-following. The reason behind this is that outside of “moral absolutes” or exceptionless prohibitions (such as not taking the life of the innocent, for example) (NE 1110a), ethical rules are always formulated in general terms, as different versions of “doing good and avoiding evil”. They cannot, and indeed, do not take into account all the relevant and oftentimes unforeseeable particulars involved in their implementation. That is why proper rule-following invariably needs “prudential judgment” or practical wisdom. For instance, when a traffic-enforcer metes out punishment in the form of a fine or even a recommendation for jail-time to a speed-limit violator, he has to consider whether there was a medical emergency, by how much was the limit exceeded, the road and weather conditions, if there was any sign or warning, and so forth. There may be a code, procedure or an algorithm to determine the punishment, but even then, rules will have to be interpreted and human beings will have to make decisions that could either be just or unfair. There is no such thing as a self-implementing rule and even protocols have to be created or programmed by human beings. Because human beings cannot see into the future they cannot establish perfect rules that foresee all possible circumstances. Hence, there will always be space for interpretation and implementation, and here is where practical wisdom comes in.

Thirdly, not only is practical wisdom a charioteer that guides, but also a mother that begets all the other virtues (NE 1145a); without it, no other genuine virtue would exist. That is because every bit of virtue-knowledge is in fact connected to the others,

essentially forming a unified body, so much so that to judge or evaluate morally any line of action is to compare its worth relative to others. Practical wisdom is what makes this connection possible by providing a common fount or source among the different virtues for right judgment and action. For this reason, many ancient and medieval ethicists affirmed the “unity of the virtues” thesis, meaning no single virtue can be truly present without the others (Telfer 1990). Practical wisdom plays a crucial coordinating role among the different moral virtues.

In fourth place, practical wisdom demands a “qualified agent account” (Hursthouse 1999: 28), according to which an action will be right and virtuous if and only if it is what a virtuous agent would characteristically do in comparable circumstances. Aristotelian practical wisdom therefore rejects the “neutral, third-party observer” standard utilized in the natural sciences. As we have seen, practical wisdom involves the right perceptions, desires, feelings, motivations, judgments and actions according to a moral, not a physical standard. Making the right decision here is not a simply a matter of having the right physical measurements or dimensions in terms of height, weight, width, temperature, duration and so forth, although one ought to have the correct facts. The “objective standard” in decision-making and action is none other than the subjective judgment of the virtuous or practically wise agent. Only he can decide and act competently in matters of practical wisdom. The subjective moral disposition of the agent—not any mechanical knowledge or skill, or even any bit of theoretical, abstract knowledge—is the determining factor in practical wisdom. Understandably this creates some form of circular reasoning, since only the practically wise person can identify and carry out practically wise behavior. But this difficulty can be remedied in a certain measure by recourse to the different stages in the psychological

development of virtues and skills. To the degree that an apprentice or novice is initiated and advances in the acquisition of a virtue such as practical wisdom or a skill such as piano-playing, his perception, judgment and performance changes until it resembles that of a virtuoso or expert. These internal changes have repercussions on external behavior critical to the virtue or skill (NE 1144b, 1147a). Observable conduct by itself, without knowledge of the underlying feelings and motivations, is not a dependable criterion for detecting practical wisdom.

Aristotle actually has a name for the mere appearance of practical wisdom without being truly practically wise: *panourgia*, which can be translated as “craftiness”, “cunning” or “astuteness” (NE1144a). This is the quality possessed by someone who goes through the motions or external displays of practical wisdom, because he is effective in getting things done and efficient in making the most out of limited resources, but is morally indifferent or misses the mark. His perception, feeling, judgment and action are not informed by virtue but by mere compliance with external rules or goals, whatever they may be. There is no internal commitment on his part. To some extent, this describes the perfect bureaucrat or manager on whom one could always count to obey orders, come what may, partly also because of a lack of ethical scruples.

The difference between a person of practical wisdom (*phronesis*) and one of craftiness (*panourgia*), therefore, does not lie in external manifestations, since both of them are, for all intents and purposes, engaged in the same activities. Rather, it is found in the internal dispositions, in the commitment to a certain goal or kind of life as final end. In this vein, Aristotle states that Socrates was, perhaps, for the majority of people, indistinguishable from the Sophists, because they were equally surrounded by young

people eager to learn (despite Socrates' insistence that he knew nothing except his own ignorance and therefore did not feel qualified to teach anyone anything). Besides charging fees for instruction, the Sophists differed profoundly from Socrates in their lifestyle choice: the Sophists were ultimately after wealth and power, while Socrates sought virtue above all (Metaphysics 1004b). This choice of a final end meant all the difference for their internal dispositions, and consequently, for whether they had practical wisdom (*phronesis*) or its simulacrum, craftiness (*panourgia*).

In summary, practical wisdom (*phronesis*) is similar to craftiness (*panourgia*) in that both refer to rational choice and deliberation regarding the appropriate means to an end. But whereas craftiness is indifferent to the moral nature of the end, concerning itself exclusively with "maximizing" results or output, practical wisdom requires that the end be "right", meaning one in accordance with virtue and the ultimate end of human life which is flourishing (*eudaimonia*). Practical wisdom consists of doing the right thing the right way.

Because of this, Aristotle lists practical wisdom (*phronesis*) among the character traits or personal qualities (*ethos*) that a speaker must have in order to convince or persuade an audience in the "Rhetoric" (henceforth Rh, 1356a), perhaps the first manual not only in public speaking, but also in leadership. Together with virtue (*arête*) and goodwill (*eunoia*), practical wisdom (*phronesis*) allows one to form correct opinions over concrete, contingent issues, enabling him to express his views justly and fairly, and ensuring that he gives sound advice for the benefit of his listeners. They form the basis of a person's credibility and trustworthiness. Aristotle distinguishes three ways in which these personal traits prove useful (Rh 1358b): in a deliberative mode, to exhort or dissuade from future action, by showing potential benefit or harm; in a judicial mode, to

approve or condemn past action in accordance with innocence or guilt; and in a demonstrative mode, to indicate what is honorable or, on the contrary, shameful. Thus, a morally excellent and at the same time skillful public speaker or leader is able to influence his audience, in a manner respectful of their freedom and reason.

II. The proper end or goal of the corporation

Having clarified the nature and meaning of practical wisdom (*phronesis*) as a virtue and differentiated it from its counterfeit, craftiness (*panourgia*), some sort of all-purpose effectiveness and efficiency, an all-around managerial expertise, regardless of the ethical quality of the end pursued, we shall now try to apply them to the governance of a corporation. The first step consists of establishing a proper end or goal for the corporation, analogous to flourishing (*eudaimonia*) as the ultimate good of human life.

Certainly, this is not an easy task. It will depend largely on whether one adopts the dominant neoclassical economic view of the business corporation or firm, or one takes an alternative approach (Fontrodona and Sison 2006). The neoclassical economic theory of the firm owes its name to the fact of having arisen from classical economics, modeled after modern physics, then the most prestigious natural science thanks to its empirical and quantitative methods, and the “marginal revolution”, which explains economic phenomena such as production, consumption and so forth through mathematical functions. The neoclassical economic view is steeped in individualism, as it takes isolated, atomistic and autonomous individuals as the basic units of analysis; as well as in utilitarianism and hedonism, since that individual’s objective boils down to furthering whatever it finds useful and pleasurable. The reason for being of the firm as

an economic organization then lies in its ability to lower “transaction costs”, compared to exchanges and contracts carried out in the open market (Coase 1937). The firm is legally a nexus of contracts between equity holders (“principals”) who hire managers and employees (“agents”) to work on their behalf and promote their interests (Jensen and Meckling 1976). Cost savings in the firm are then transferred to investors or shareholders in the form of higher “value” or profits. That is because the purpose or objective of the firm is nothing else but to maximize shareholder value, which in practice is equivalent to profits (Friedman 1970). For the neoclassical economic school, the firm is above all a means or instrument through which agents maximize their utility preferences.

Familiar as this account of the firm may seem, it suffers from the lack of any room for the moral good or virtue. The good is not simply what satisfies a desire or preference; it must also “perfect” or “make whole” whoever holds that preference or desire. In other words, certain desires or preferences are self-destructive and impede flourishing. Think, for instance, of the many forms of addiction to drugs, gaming and pornography, which are contrary to a good life in accordance with reason. They may satisfy inclinations and desires, but at the same time, they could also wreck a person’s life. That doesn’t happen with practical wisdom. The neoclassical economic theory of the firm, therefore, insofar as it seeks profits or “value-maximization” for investors above all, is incompatible with the development of the virtue of practical wisdom. Instead, the firm becomes fertile ground where craftiness can flourish, an institution where money and other forms of material wealth can be relentlessly pursued. Moral considerations, then, are viewed here as mere stumbling blocks, not safeguards of integrity or guides to excellence.

An alternative to the neoclassical economic account of the firm is the so-called “common good theory of the firm” (Sison and Fontrodona 2012). Grounded on Aristotelian and Thomistic traditions on the virtues and natural law as well as Catholic Social Teaching (CST), this theory states that the purpose of the firm lies in the “common good” of “participatory work” or “collaborative production”. This “end” or objective of the firm is termed “common” not only because of the non-rivalrous and non-excludable features of its production (in this respect, very similar to “public goods”), but also because it can only be attained if each and every member of the group also attains it. The common good account of the firm, therefore, is the complete opposite of the neoclassical economic version, since in this latter, the profits or value one earns cannot belong to another at the same time and in the same sense. On the other hand, the common good could only be achieved to the extent that each member achieves it, much like victory in any team sport. Although the members of a side may play different roles or functions, it is the team as a whole through each and every one of its members that wins a match.

While the neoclassical theory views economic actors as individual, autonomous agents, each pursuing its own utility or pleasure, the common good theory understands them as persons, that is, individual and social or relational beings at the same time and in equal respects, ultimately seeking flourishing (*eudaimonia*), a good that exists only insofar as it is shared with all the other members of the group (Fontrodona and Sison 2006). Exclusively individual or exclusively relational beings are just abstractions; what really exists are human beings who are simultaneously “individual” (that is, separate from each other) and “relational” or “social” (meaning mutually dependent on each other to achieve their purposes). Evidence of this is the fact that although every human

being has its own separate body (individual), nevertheless all human bodies have navels (relational or social), indicating radical dependence in being. Furthermore, such persons are endowed with freedom and reason such that they could search for fulfillment through activities of their own choice.

More than just a device to lower transaction costs, firms exist to produce goods and services necessary for flourishing (*eudaimonia*) beyond the capacity of individual families (Sison and Fontrodona 2012). This is known in Aristotelian parlance as “artificial chrematistics”, referring to the art of acquiring or providing the material means needed for flourishing carried out by “non-natural entities” (that is, outside of individual human beings, their families, villages and political communities). Indeed, firms are voluntary associations human beings form, sometimes as extensions of their families, but not quite as encompassing as their villages or political communities, to satisfy particular economic requirements that would be otherwise unmet. If a European wanted to build a vessel to travel and trade with people in Asia, for instance, chances are he would have to source manpower, expertise and capital beyond the confines of his own family and village. Rather, he would have to enlist the cooperation of other like-minded people to carry out this venture, constituting something very similar to a firm.

“Collaborative production” accomplishes the common good of firms in two, hierarchically ordered ways, in accordance with inputs from CST regarding the meaning and value of work (Sison and Fontrodona 2012). Firstly, through the production of a variety of goods and services and the generation of profits, all of which, together, comprise the “objective dimension” of work. These constituents of the objective dimension can be distributed more or less equitably, but not shared, strictly speaking. But more importantly, collaborative production also actualizes the common good of

firms by developing knowledge, skills, meanings and moral excellences in all the workers who take part. This “subjective dimension” of work is so-called because it inheres directly in the workers and becomes inseparable from them, forming part of their immaterial worth or value. They come closer to human dignity than mere objects or things (objective dimension). Also, their nature is such that they can truly be shared, they entail no rivalry or excludability and the whole of humankind would fare all the better if we acquired more of them.

Whereas within the neoclassical economic framework, corporate governance becomes largely a matter of rule-making and rule-following (“codes of conduct”), plus the creation of incentives and sanctions properly aligned with the interests of shareholders and other investors (Sison 2000b), the common good theory takes a more complete approach (Sison 2008). Of course corporate governance codes consisting of rules are necessary, as they can provide immediate guidance especially regarding prohibited behaviors, for instance, “do not pay bribes to government officials”. However, with reference to permissible behaviors, rules tend to be too general to be of much help. In this respect, joint deliberation and agreement about the “goods”, that is, the hierarchy of goals, objectives, values and so forth to be collectively pursued is also needed. An example of this could be the fundamental commitment to safeguarding people’s health thanks to which Johnson & Johnson officials made the decision to recall the possibly tainted Tylenol bottles, instead of waiting for the results of a financial cost-benefit analysis of alternative lines of action. But still, a third element comprising the virtues, particularly practical wisdom (*phronesis*), is needed. Virtues link objective rules and goods through subjective action, developing integral human excellence. The virtues allow one to properly interpret the rules and appropriately judge which among the

competing goods are to be realized and how, given the circumstances. Moreover, virtues cannot accrue anywhere else but in the subject, creating some form of “moral capital” (Sison 2003), that rightly predisposes one for future actions.

By establishing collaborative production in its double, hierarchically ordered subjective (knowledge, skills, virtues and meanings) and objective (goods, services and profits) dimensions as the proper end or goal and common good of the firm, we are able to lay down the foundations for an ethical conception of the corporation. While in the neoclassical economic view of the firm, there was only room for craftiness (*panourgia*) in governance due to the lack of a common good, now it is possible to cultivate practical wisdom (*phronesis*), aided by the existence of rules or norms and shared goals, objectives and values.

III. A MacIntyrean account of corporate governance

In this section we shall endeavor to frame the activity of corporate governance in terms of two closely related MacIntyrean categories, “practices” and “institutions”.

Practices are defined as “any 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, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended” (MacIntyre 2007: 175). Examples of practices are chess, football, farming, architecture and the creation of Aristotelian political communities. They are considered a “universal feature of human cultures” (MacIntyre

1994: 287). Practices involve or establish two things: goods that cannot be obtained or achieved outside of the cooperative activity (“internal goods”) and “standards of excellence” by which the performance of the activity could be judged, at least partially. Practices also yield two results: the development of distinct human capacities for excellence and an improvement in the understanding of the specific ends and goods.

It comes across quite clearly from the definition of practices above that they closely resemble instances of practical wisdom (*phronesis*). They both pursue goods or ends internal to the activity itself, such as the “morally right action” for practical wisdom or the proper performance of the practice whatever this may be, chess, football, farming and so forth. These objectives are “path-dependent” and cannot be obtained through other means. Furthermore, the standards of excellence in these activities do not make sense except for those who have been initiated and are somehow involved in them. Practical wisdom is desirable exclusively to members of the human species and would not seem the least attractive to robots without any ethical skin in the game. Similarly, excellence in practices can only be appreciated by those who have knowledge of the underlying rules and objectives as well as experience in carrying those practices out. Otherwise, chess, for example, would simply appear as moving tokens across a checkered board. And thirdly, practical wisdom and practices are the results of cooperation rather than competition. One learns practical wisdom by imitating the example of another who already exhibits this quality to a superior degree, and one agent’s practical wisdom does not detract but, most likely, contributes to another’s. In like manner, one learns to play chess well by following the strategies of a master and there is no limit to the number of people who may grow to be learned in chess. This

would not cause any deterioration in chess-playing; on the contrary, it will spur further development and excellence.

For their part, “[I]nstitutions 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). Institutions refer to the procurement and distribution of goods external to practices, some of which are material, such as money, and others, closely related to the material, like power and status. Institutions are absolutely necessary for they “sustain not only themselves, but also the practices of which they are the bearers. For no practices can survive for any length of time unsustained by institutions” (MacIntyre 2007: 194). Thanks to the external, material goods they procure and administer, institutions are essential to the survival of practices and their internal goods.

Institutions, then, are very similar to the realms in which craftiness (*panourgia*) is exercised. Firstly, because in both, the goods sought are external to the activities themselves. Craftiness (*panourgia*) is precisely the skill called upon when effectiveness and efficiency is needed regardless of the goal or objective pursued. Craftiness “works” indifferently of the goal or objective. Secondly, and in consequence, excellence in institutions and craftiness are observable to anyone, without requiring any previous understanding, involvement or initiation. One simply sees that results are obtained, that there is more of whatever was proposed, and that this was achieved through the efficient use of resources. Any neutral, third-party observer would suffice to acknowledge the efficacy of craftiness and institutions; no moral commitment is needed. And thirdly, the goals of institutions and craftiness are matters of competition rather than cooperation.

Their ends are objects of a zero-sum game such that one's gain is necessarily another's loss.

Both institutions and practices, on the one hand, and the external and the internal goods that they respectively pursue, on the other, are so intimately related to each other that they form "a single causal order" (MacIntyre 2007: 194). Because of this, "the ideals and the creativity of the practice are always vulnerable to the acquisitiveness of the institution, [...] the cooperative care for the common good of the practice is always vulnerable to the competitiveness of the institution" (MacIntyre 2007: 194). Due to the dependence of practices on institutions, it could occur that agents seek external goods such as money, status and power in themselves, either forgetting about internal goods altogether or subordinating them to external goods. This situation describes the loss of integrity or corruption of practices and institutions (MacIntyre 2007: 195); practices are distorted and institutions, with their external goods, invade, rather than support them (MacIntyre 1994: 289).

At this point, the parallelism between practices and practical wisdom, on one hand, and institutions and craftiness, on the other, stops. Although practices and practical wisdom rely on the external goods such as money, status and power supplied by institutions to achieve their own internal goods, we should not say that practical wisdom depends on craftiness or that one could only exercise practical wisdom thanks to another's craftiness. Virtue owes nothing to vice. Instead, we should be able to find a way in which all the necessary external goods are acquired without falling prey to craftiness. In short, we should be looking for institutions, involved in the provision of external goods, not ruled by craftiness but by practical wisdom. How is this possible?

The first step consists of recognizing that the necessary external goods to which institutions are dedicated are not “goods in themselves”, but only “goods in respect of another” or “instrumental goods”. It would be foolish, therefore, to seek them for their own sakes. Why, then, should we strive for them? Only in the measure that they lead to superior “internal goods” or “goods in themselves” as those procured by the practices that depend on them. The second step lies in practices setting the boundaries or limits within which institutional goods could somehow be “internalized”, because institutional goods are placed at the service of practices. For instance, when a hospital asks just how much profit it should make, the answer should not be “as much as possible”. That would be the case of a corrupt institution beholden to craftiness, dedicated exclusively to accumulating external goods. Rather, the response should be “as much money as needed to fulfil the overriding practice and objective of improving and preserving people’s health”. In this situation, the institution, without ceasing to be one because it still seeks external goods, would nevertheless be subject to practical wisdom and supportive of practices.

Therefore, institutions in themselves are not to be censured outrightly. One reason is that external goods are still goods, and necessary for the cultivation of practices. Another equally important reason is that “the making and sustaining of forms of human community —and therefore of institutions— itself has the characteristics of a practice, and moreover of a practice which stands in a peculiarly close relationship to the exercise of the virtues” (MacIntyre 2007: 194). The making and sustaining of institutions, then, may be equivalent to a practice with its own internal goods and standards of excellence. Moore identifies this practice as “governance” (Moore 2012). From this perspective, governance —and in particular, corporate governance—

becomes a “second-order practice” in which institutions supply just the right amount of external, material resources to render themselves sustainable and supportive of the “first-order”, core practices (in the previous hospital example, the caring activities with a view to preserving health). The deliberations, decisions and actions surrounding the sustenance of such institutions is clearly a matter of practical wisdom, not craftiness.

Before explaining further how this “second-order” practice of maintaining institutions or governance relates to practical wisdom and other virtues, we shall first draw its connections with the corporate common good (Sison and Fontrodona 2012). Collaborative production as the corporate common good dovetails seamlessly with the MacIntyrean categories of practices and institutions. The “subjective dimension” of collaborative production which gives rise to knowledge, skills, meanings and virtues refers to practices, while the “objective dimension” which goes after actual goods, services and profit refers to institutions. In the same way that practices and institutions form a single causal order, so too do the subjective and objective dimensions of the corporate common good. Although the subjective dimension, just like practices, pursues superior internal goods, nevertheless, it would not be possible without the objective dimension, equivalent to institutions, which provides the external goods. At the same time, a properly governed institution is one wherein just the right amount of external goods are sought, so as to be self-sustaining and enabling of core practices. All this would be the work of practical wisdom as the excellence corresponding to the second-order practice of maintaining institutions or governance. By contrast, an improperly governed or corrupt institution is that in which the search for external goods in themselves takes priority over any core practice. Here, craftiness reigns, as one would expect of Weberian bureaucrats or managers.

So far we have presented corporate governance as a second-order practice consisting of acquiring just the right amount of external, material resources to maintain an institution and to promote certain first-order or core practices with their own internal goods. Practical wisdom is the excellence or virtue corresponding to this second-order practice of governance.

However, defining the practice and the good internal to governance is just the first of three necessary conditions MacIntyre requires for virtues to be genuine (MacIntyre 1994: 284). Apart from identifying the virtue proper to the practice of governance, that is, practical wisdom, we also have to look into the ways in which practical wisdom may be “institutionalized”. This means the paths for the “governance of virtue”, the methods through which virtues may be cultivated and fostered among the different members of the corporation or firm (Moore 2012). How does corporate governance “crowd in” virtue instead of craftiness and vice? How do we recover practical wisdom in corporate governance?

IV. The recovery of practical wisdom in corporate governance and the “institutionalization” of virtue

MacIntyre states that virtues —to be genuine— have to enable the achievement of three kinds of goods (MacIntyre 1994: 284): 1.) “those internal to practices”; 2.) “those which are the goods of an individual life”; and 3.) “those which are the goods of the community”. Three steps must be taken, therefore, to fully develop practical wisdom in corporate governance, such that not only is the institution sustained and the

core practices supported, but also, virtue is stably promoted or “institutionalized” among firm members and the community as a whole.

We have already complied with the first step in the previous section by framing corporate governance as a practice, albeit a second-order one, the sustaining of an institution in support of a core practice, with its corresponding internal good and excellence or virtue, practical wisdom. We still need to satisfy the other two conditions, and to this we now turn.

It so happens that the practice of governance does not take place in the abstract, but only and always as an activity performed by a particular person, with his or her own life story or biography. Therefore, the good represented by the practice of governance and its excellence need to be located within the narrative unity or story of an individual life to more fully qualify as virtue. Such a person is necessarily some other people’s son or daughter, probably a brother or sister to other siblings, perhaps a spouse, maybe even a father or a mother. Besides being a corporate executive, that person most certainly plays a variety of other roles in different life spheres or domains of action. Invariably conflicts will arise from the demands coming from these multiple roles. For instance, should one favor a close relative, a son or a nephew, when hiring in the company he or she manages? Should his or her duties toward blood relatives take precedence over the good of the company, in need of competent professionals? Although there may be company policies in place concerning hiring, nonetheless, there is also such a thing called “managerial discretion” in recruitment. Hence, there will always be opportunities to put practical wisdom in governance to the test. A practically wise corporate governor should be able to make the right decision in such situations, fulfilling family duties without sacrificing professional integrity and firm loyalty.

The next and final step concerns the contextualization of practical wisdom through engagement with the different traditions or “communal modes of inquiry” regarding “best practices” in governance. For instance, due to the nature and extent of company operations and investor backgrounds, an executive may have to choose between a German-style dual supervisory and management boards with mandatory worker representation and an Anglo-saxon style unitary board with an “imperial” chair who doubles as CEO (Sison 2000a). Each one would have its pros and cons in matters such as monitoring, performance targets, compensation, efficiency and so forth. Once more, practical wisdom will have to enter into play in such a decision. Which of the alternatives best reflects the company’s value systems and supports its core practices? Which of these two corporate environments would be more conducive to the flourishing of the firm members and of the organization as a whole? It behooves a governor trained in practical wisdom to seriously consider the common good of the firm and to take sides, or even to propose, perhaps, a “third way” that would further advance corporate governance theory and practice. Not until this final stage is reached could practical wisdom in the governance of a firm be considered sufficiently established.

Essential to the recovery of practical wisdom (*phronesis*) is the proper understanding of the virtues (*aretai*). These are distinctively human excellences found in multiple operational tracks which produce a positive feedback among these dispositions to action. They are called “goods” not only because they satisfy the right desires, but also —and above all— because they ultimately lead to flourishing (*eudaimonia*), which is the final end of human beings. Secondly, it is necessary to grasp the characteristic features of practical wisdom which differentiate it from the other

virtues, such as its practical orientation toward right action, a normativity beyond rules, and the ability to engender and connect or coordinate all the other moral virtues. In MacIntyrean terms, practical wisdom corresponds to a “practice” which seeks a path-dependent internal good and a non-rivalrous, non-excludable object of cooperation, whose standard of excellent performance is available only to qualified agents who have been duly initiated in the specific practice. (“Institutions”, by contrast, pursue external goods which, being objects of competition, are zero-sum and whose standard of excellent performance is available even to neutral, third- party observers.)

Most importantly, we should be able to distinguish practical wisdom from its counterfeit, craftiness (*panourgia*). In the case of corporations, this would only be possible to the extent that we are capable of positing a “proper end” for them, in place of the “maximization of shareholder value” put forward by the neoclassical economic theory of the firm. This is the “common good of the firm”, consisting of participatory work or production insofar as it yields subjective (knowledge, skills, meanings, virtues) and objective (products and profits) results. Corporate governance then could be taken as the management of the firm in accordance with its own specific rules, goods (especially its “common good”) and virtues. Once more, making use of MacIntyrean categories, we could state that corporate governance consists of the (second-order) practice of sustaining and maintaining institutions.

Yet besides the definition of a specific practice, genuine virtues also require embeddedness in individual lives and continuity with the traditions of a community of practitioners. We have explained this through the ways in which practical wisdom helps one navigate different role conflicts and advance the demands of contrasting traditions of “best practice”. The fulfillment of these biographical and sociological requirements is

fundamental to the institutionalization of virtues such as practical wisdom in the governance of corporations. Thus, virtuous corporate governance qualifies as a “good of an individual life” in which an agent successfully plays multiple roles in constant interaction with other agents in different spheres or domains of action. Virtuous corporate governance or corporate governance in accordance with practical wisdom also represents a “good of a community”, in the measure that an agent meaningfully engages with different traditions or “communal modes of inquiry” regarding “the best way to lead a business” or “govern a corporation” at any precise given moment.

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