THE ETHICAL AND THEORETICAL CONTEXT OF CORPORATE GOVERNANCE

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Abstract

The paper investigates the foundations of corporate governance. It traces the current practical problems of corporate governance to the epistemological and ethical problems of the current mainstream management theory. Management theory has gradually been subverted by economism, an ideological and extreme version of mainstream economics. The paper isolates and discusses the three axioms of economism which are deemed to be especially problematic for management/corporate governance theory. The three axioms are: the assumptions that humans always follow the rational principle, that value-free research and application of management tools is possible, and that theory takes primacy over reality. These axioms plus what has been called the "gloomy vision" create a theory of management which is amoral and which in turns leads to immoral and dysfunctional corporate governance.

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1. Introduction

In 2005 and 2006 two management gurus published scathing criticisms of *what* management as a scientific discipline teaches (Goshal) and *how* things are taught (Bennis). Both articles caused quite a stir, because they questioned mainstream management thinking and teaching radically. Of the two, Goshal's notion that mainstream management was indeed evil, creating immoral managers (Bennis accused management professors merely of producing automatons unable to deal with complexity) was by far the more serious accusation. Corporate governance is about putting a structural, legal and ethical framework in place that encourages and enables managers to behave within ethically and legally acceptable parameters and at the same time furthers long-term profitability. Goshal's ideas are thus very relevant to corporate governance. This paper will argue that Goshal was right and that only a fundamental change in the assumptions underpinning management mainstream theory will lead to a sound theory and practice of corporate governance. I will start by showing what, why and when things went wrong in management theory. Then I will talk about the main epistemological shortcomings – which in my view are massive – of an economised management theory. In a last chapter I will take Goshal's argument one step further and explain how immoral management practices which are based on amoral economised management theories undermine Western societies' ethical foundations.

It seems that a large number of leading management scholars share Sumantra Goshal's considerable unease about the mega-trend in management theory towards Hobbesian views on human nature and the mathematisation of what should be a social science. However, Goshal's fundamental criticism is not being incorporated into mainstream theories. Why is that? Mintzberg (1971, 1975, 1979, 1999, 2004, etc.), probably the most important and influential management scholar of the past 30 years has been saying the same things as Goshal for an even longer time, and is also listened to and not acted upon.[1]

How can management scholars draw on Mintzberg's, Goshal's, Drucker's and also Bennis's ideas and still strongly disagree with their general philosophy, when the four authors' writings are permeated by the idea that management is not a number-crunching exercise done by selfish and totally rational maximisers? We have a hypothesis – and a rather provocative one at that – which answers these questions: people have been brainwashed – they believe in an ideology which allows them to strictly separate between their theories and reality. That ideology is economism.[2] We will discuss in this paper

[1] Despite Walter Nord's (2005) assurances in Academy of Management Learning & Education, that 'When Henry Mintzberg Speaks, People React'.

[2] We use the term economism without its usual Marxist connotations. By economism we mean the ideology of economics; the attempt to declare a sociological discipline as value-free. Any ideology frees its followers from the duty to use their own moral faculties; the result in my view is not an amoral but an immoral society. The term is also not used to denounce Liberalism or Libertarianism as Hans-Hermann

how economism acts like a corrosive destroying not only the basis of good (ethical and effective) management practice and theory – and therefore corporate governance – as Goshal claimed, but also how economism is corrupting the social context in which management exists.

2. Management theory has been replaced by ideology

An ideology and a theory are not easily distinguishable because both contain elements of faith (axioms). If an ideology offers a simple solution to life's recurring complex problems, people often choose the path of least resistance and follow the herd, even if they know the theory/ideology is wrong. There is a large number of definitions of what constitutes an ideology. All of them have in common that an ideology is a collection of theories bound together by a vision or strong beliefs (axioms). Lakatos (1973) called these basic beliefs "hardcore hypotheses".

Popper's falsificationism rests on the postulate that a theory or its hypotheses are testable. If they are not, the whole theory is unscientific (cf. Popper 1934, Lakatos 1973). The demarcation criterion between an unscientific ideology and a scientific research programme, Popper argued, is the falsifiability of a theory in an experiment or through an observation. '[O]ne can sum up all this by saying that the criterion of the scientific status of a theory is its falsifiablility, or refutability, or testability' (Popper 1965: 37).

Scientists are also humans who defend their opinions, even if the facts stand in contrast to them. Being especially smart humans, they even defend the holes in their theories before other people have spotted them, they immunise their theories with what Popper called 'immunising strategems'. Popper's version of falsification struggled with this. Imre Lakatos developed his Popper's naïve falsificationism into sophisticated falsificationism. He claimed that all research programmes have a limited number of very important hypotheses (the so called hardcore hypotheses). These hardcore hypotheses are surrounded by hypotheses of lesser importance and those act as a protective belt. Repeated falsification of these auxiliary hypotheses in the protective belt would not automatically mean that the whole theory is falsified and has to be abandoned. However, if the hardcore hypotheses are repeatedly falsified (through a clash with reality), the research programme must be given up. In effect Lakatos allowed scientists to employ immunising stratagems up to a certain point, while Popper – somewhat naively – appealed to the scientists' decency.

The argument presented here is that the economic research programme within management in particular and in the social sciences in general is in fact not a scientific research programme but an ideology, whose hardcore hypotheses have been refuted right from the start. It should therefore be given up. An even stronger argument for separating the two research programmes management and economics from each other is that their basic principles (efficiency vs. effectiveness) clash (Hühn 2005). Broekstra is right, when he says, this unhealthy economisation of management is not a new development but a recurring trend:

> And here we come to the heart of the matter: the prevailing managerial ideology. Managers are primarily efficiency- rather than effectiveness-oriented. The result is, as Janov (1994) contends, a means-end confusion. (Broekstra 2001: 106)

Fads come and go while the efficiency focus[3] has become the prevalent ideology in management, much to the detriment of what really should be the focus of analysis in management, i.e. effectiveness. Effectiveness cannot be calculated, however, and is therefore of little relevance in economised management.

Scholars like Lindblom and Herbert Simon (1947) have much earlier criticised the application of economic principles in management. This paper is not simply repeating or enlarging on their critiques. We will take the argument a step further, by claiming that the economic view of social sciences stands in total opposition to some of the most important fundaments of Western philosophy, the basic ideas of the Enlightenment. A theory which like economism stands in stark contrast to the ethical foundations of a culture, must either be accepted as correct beyond reasonable doubt, or be given up immediately. Otherwise it will – if it is mainstream thinking, which is the case with the economic view – undermine and then completely destroy a culture completely. It should be obvious that there is considerable doubt as to the applicability of the economic principle in the social sciences.

The deteriorating situation with regard to corporate governance we can observe around is just the tip of the iceberg. The governance of corporations (regulated by those who govern a country) and the governance of a country are part of the same complex socio-ethical system and a systemic failure in one part of the system will affect the system as a whole. Bennis and Slater (1964) correctly predicted the downfall of the Soviet system in a Harvard Business Review article. A corrupted ideology in one societal subsystem will affect the whole system. This paper argues that the managerial subsystem is destroying the societal system bottom up through the enforcement of an amoral management ideology.

Hoppe – whom we will quote later – is the most important living economist in the Libertarian school.

[3] In German and Austrian Economics the economic principle is also called the efficiency and rational principle. Thus, Broekstra is complaining about the economisation of management that has developed into a full-blown ideology. Drucker's postulate, that "effectiveness rather than efficiency is essential in business" (1964: 5) has been discarded by the management economists.

3. A short critique of economism

Despite its massive shortcomings – the Duhem/Quine thesis alone is able to destroy Popper's hardcore hypothesis[4] – falsificationism[5] we accept that the mainstream in all scientific disciplines favours falsificationism – at least officially.

For the sake of brevity we will analyse only the most important axioms of economism, those constituting the hardcore hypotheses of the economic ideology. For that we refer to what Nobel prize laureates Herbert Simon, Friedrich August von Hayek and also Sumantra Goshal have written on the subject. We think that there are at least three closely related hardcore hypotheses. The first maintains, that there are hard facts and only hard, i.e. measurable, phenomena are relevant. The second holds, that there is one rationality which is expressed in a meaningful, i.e. mathematically valid, way in the economic principle, and which allows predictions. Finally, the third axiom, which is maybe the most astounding of the three basic tenets of economism, claims that reality is a function of theory, otherwise prediction would not be possible.

Axiom 1

We shall start with the last point. Hans-Hermann Hoppe, the most important living libertarian economist, calls attention to what is a rather critical argument. He proposes that there are two very different situations: natural events and human activities. For each category there are different rules with regard to the relevance of theory and the possibility of prediction. Hoppe criticizes the two extreme schools in economics, the rational expectation theorists and the radical uncertainty theorists for being wrong logically and empirically. He agrees with Lachmann, whom he sees as the most important exponent of the latter school of thought, about the shortcomings of the rational expectation theorists:

> "Lachmann and his followers are correct in emphasizing that the problem of predicting my and others' future actions is categorically different from that of predicting outcomes of given actions or of natural events. In fact, the destructive part of Lachmann's argument is largely correct even though it is hardly new." (1997: 55-56)

Hoppe makes two very important statements in this passage. One with which we agree, and one which we would like to, but cannot agree to. First, Hoppe declares that we can, and indeed should (for insurance reasons for example) predict certain natural events. For example "pattern of earthquakes, tornadoes, cancer, or car accidents…" can be predicted with some degree of accuracy (1997: 56). Human actions, however, are another kettle of fish altogether – and cannot be predicted. Hoppe succinctly explains the world-view of rational expectation theorists,

> "Rational expectation theorists only replace the model of man as a never-failing automaton with that of a machine subject to random errors and breakdowns of known types and characteristics." (56)

The rational expectation theorists are of course the economists that have come to rule the management debate.

Let us come back to Hoppe's second claim – the one to which we would like to agree, but cannot agree. Hoppe says that Lachmann's argument, that one cannot make predictions about human actions, is hardly new. This may be true for some enlightened economists. For mainstream management theorists like Günter Wöhe, the doyen of German business administration, it is an outrageous idea worthy of their full contempt. In the 21st edition (since 1960) of his 1300 page introduction into business administration Wöhe, like any sane person, says that the assumption of a "homo oeconomicus" is merely a fiction. In the next sentence, however, he pushes all concerns aside and proclaims that the ever rational maximiser is a valid fiction, which is needed to differentiate business administration from sociology. It makes the analysis and prediction of economic reality possible (2002: 26). This is, of course, a totally unacceptable statement: a valid fiction is a contradiction in terms. Nevertheless, it clearly demonstrates the extent to which the notion, that a business administration scholar can define a theoretic reality (which in turn defines "physical" reality), has been completely accepted.

This "theoretic turn", i.e. making reality dependent upon theory is enormously important for business administration as a science, for it gives business administration and economics a special position among the sciences (Wöhe 2001: 24). "Economic Science" (*Wirtschaftswissenschaften*), according to this view, is not a mixture of Arts and Science. Rather, it represents a separate scientific discipline, which renders insights from the Arts and Sciences usable through the application of rigorous mathematical methods. Good old physics envy is alive and kicking. Indeed, this shows that the prevalent mindset of management economists has made it widely acceptable. Human interference coming from the Arts is managed by being expressed in the

[4] Naïve falsification rests on the assumption, that one cannot verify a theory through facts as million of corroborative facts (seeing a million white swans) is proved wrong by finding only one fact (a black swan) that refutes the theory (all swans are white). But, the critics say, what about the theory of seeing which says that the last swan was black instead of white? Who has proved that this is right? The answer obviously must be: no one. A theory can never be tested in isolation. Thus, it is neither impossible to verify nor to falsify theories with facts. For this very reason Imre Lakatos created sophisticated falsificationism which allows social factors (introduced by Thomas Kuhn) into the debate.

[5] Popper's falsificationism is still very popular among the scientific community despite its serious shortcomings. Popper's most talented pupil, Imre Lakatos, was even in 1973 quite exasperated, 'I think that the fact Popper's philosophy survived for so long is a sociological mystery. Popper's immortality is secured by this idiotic result.' (1973)

language of mathematics: the rational/economic principle is the most important axiom of the ideology of economics (economicism); without it, everything breaks down. Thus, the postulate (for that is what the economic principle is: nothing but a wish, not based on reality) – which states that every person maximises/optimises all the time (a point which is of course totally untestable) is the pillar on which the theory of economics, on which reality depends, rests. Maybe the bluff is simply too brash to be called. Maybe economists are too lethargic to think about this problem with their theory.

Axiom 2

The second axiom is the rational/economic principle and it plays such a central role that it has been mentioned in the discussion of the first axiom and will feature in the discussion of the third axiom. In the early 1960s, Herbert Simon did the unthinkable: he looked to and evaluated real life, instead of just issuing advice from the safe confines of science's ivory tower. In doing so, he discovered that managers do not adhere to the rationality principle when making decisions, and that they do not maximise or optimise – they satisfice. Simon had it easier than economists: he was a social scientists and thus not bound by economic theory.

This new, practical-minded "administrative man" represented the opposite end of the continuum to the theoretical "economic man", who optimised. Both Lindblom and Simon were very clear on one point: *homo oeconomicus* was not only rare in practice; economic man was a superfluous model, a misleading chimera. Their main criticisms were that it is theoretically impossible that anyone could analyse all the data there is in an objective fashion, and then calculate an optimal solution. Their rather tame criticism of bounded rationality was nevertheless enough to shake the foundations of business administration as a science, because its highest axiom (the economic principle) was declared dysfunctional. It is interesting to note that Simon was given the Nobel prize for economics because he criticized the *validity of the economic principle for the practice of management* while today's Nobel prizes go to game theorists who base all their models on economic man. The criticism of the economic principle has been acknowledged and then forgotten by economists as if it were a minor point. One look at Gutenberg's (the founder of business administration after the second world war in Germany) model of the organisation (see Figure 1) shows that without the assumption of a unified rationality (that is, without the economic principle) the whole model becomes a very unstable construction. If the underlying assumption that all decision-making[6] humans are automatically guided in their decision-making by one rationality is false – that is, if those human agents would be guided instead by either multiple rationalities or, even worse, irrational or intuitive elements – then calculating a solution would be no longer possible. Moreover, the claim to scientific status afforded by being able to offer such an "objective" decision-making principle, is forfeited. Hoppe, himself a radical Libertarian economist[7], chides his fellow economists of the Positivist type (1997: 56):

> "Such a model of man [assuming a rational decision maker] is no less faulty than the one it is supposed to replace. It not only stands in manifest contradiction to the facts, but any proponent of this model is also inevitably caught up in logical contradictions. First off, if our expectations (predictions) concerning our future actions were indeed as rational as rational expectation theorists believe them to be, that it would be possible to give an exhaustive classification of all possible actions (just as one could list all possible outcomes of a game of roulette or all possible locations of a physical body in space)."

Early organisation theorists who hailed the bureaucracy as the best form of organization believed exactly that: one can create a list of all possible situations and human actions, write them down in the organisational handbook and thus create the perfect organization which adapts automatically. The bureaucracy was meant to be the organisational form where the efficiency principle rules. One need not comment on what is today thought of as an extremely naïve belief. As Hoppe shows, giving up the rational principal does not necessarily mean that economics becomes arbitrary, or even a useless pursuit. It just shifts the attention of economists from the study of human action to the study of phenomena within the external world.

Axiom 3

The last axiom, the reliance on hard facts, shows even more clearly than the other two that economism is epistemologically not quite up to modern standards. Economists treat facts as if they were "objective" truths, which of course is an utterly childish assumption. Facts are merely theories which are given (by a group of people) a special status. Paul Feyerabend (1975), the brilliant anarchist among the philosophers of science, included poltergeists and other paranormal phenomena is his lists of facts and became quite notorious in doing so. [8] But insisting on

[6] Today the situation is thought to be much worse, as decision-making is seen as a *process* which involves non-managers and not an *act* carried out by few managers.

[7] Goshal attacks (Neo-) Liberals of the Friedman fold and sees them as the most important propagators of economism. It would in our view be erroneous to see Libertarians who would subscribe to Friedman's definition of a Liberal, i.e. someone who sees "freedom as the ultimate goal and the ultimate goal and the individual as the ultimate entity in the society" (Friedman 2002: 6 quoted in Goshal 2005: 83) merely as more radical Liberals. Yet, Libertarians like Hoppe do not assume that humans behave like atoms, i.e. that *homo oeconomicus* is a fact (although they certainly believe in Hobbes more than Locke and thus support a gloomy vision). It seems that the situation is even more complicated that Sumantra Goshal described it.

[8] There is an interesting connection between Libertarians

the other extreme, i.e. closing one's eyes to the problematic nature of facts, is certainly even more damaging, because science is based on a debate not on silence. The debate about whether value-free economics or management research was possible reached a stalemate when the two camps got bored with the other side's arguments. Basically the aye-sayers argued that objective is needed in science and since it is needed it must be possible, while the other camp held firm to their stance that everything is subjective and therefore objectivity is impossible Over thirty years and a constructivist debate later, however, there can be no reasonable doubt that value-free (and therefore "objective") research is a practical and theoretical impossibility. Nevertheless adherents to economism, who need objectivity as much as the rational principle in order to be able to cling to their claim to be a proper science, still firmly believe in objectivity. A fact is a fact they say, and thereby affirm that they are Positivists of the most naïve type – about whom Heidegger once quipped that they confuse thinking with calculating. Maybe Heidegger also thought about the fact that economists created a human sub-species. Homo sapiens (the "wise" man) got a younger brother, the homo oeconomicus, the calculating man. This younger brother throws wisdom and common sense out of the window in order to be able to calculate.

A very simple example from a first semester lecture shows the impossibility of value-free economics and the problems caused by economists' failure to accept that subjectivity is inescapable. The author gives Introduction to Business Administration to first semester students. One of the topics dealt with in this lecture is the weighted decision matrix (see Figure 2) – one of the most typical tools of business administration. I briefly explain how a decision matrix roughly works and then let the students explore this tool in a two-hour exercise. They pretend to be top executives of Daimler and their task is to value (!) four potential takeover candidates with the help of four to six criteria (turnover, p/e-ratio, number of employees, image/brand, etc.) and then make a recommendation which company Daimler should buy. The students quickly discover that the most innocuous criteria are the most problematic. Take the number of employees. It looks very much like a sought-after hard fact. The problem is, this "hard fact", like any other fact, does not have any *value* in itself; *a value must be assigned to it*. Porsche has 11,000 employees, while BMW has 110,000 employees. The students are asked assign values ranging from 0 to 10 to all criteria and most student groups give Porsche 10 points and BMW 1 point. Yet, some groups give BMW 10 points and Porsche 1 point. Both have good, plausible arguments for their extremely different valuations of a "hard fact". After encountering an unexpected problem with the "hardest" of all facts, the students become wary. Criteria like image/brand, culture, technology prove are vastly more problematic. An evaluation – the word itself should make that clear – cannot be value-free/objective, because even numbers do not speak for themselves, they must be interpreted and an interpretation is always subjective. When the students discover this, they are relieved and use the tool with greater ease and more creatively. The tool works much better, after it has been cut down to size and the ridiculous assumption that it can used with mathematical precision.

An argument that is often sold to students is that values only mean ethical/political values and if a scientist uses uncritical value statements, he only has to tell people that he now has left the realm of facts (cf. Wöhe 2001: 55). One may think that this sounds like a practicable rule of thumb; but it isn't. Indeed, it is exactly where economists turn into ideologues. The three foundations of game theory, principal/agent theory and other such mainstream ideologies, includes the rational actor who relies on hard facts, Thomas Hobbes' evaluation of human character, and Milton Friedman's famous statement that "the only social responsibility of business is to make a profit" (1970). All three cornerstones of modern scientific management economics are presented to students as objective and factual foundations, and not as the highly subjective value-statements that they are in reality. Most scholars are not even aware of this, because they themselves have swallowed the fiction that there is value-free research. That means scientists with doctorates in philosophy (PhDs) are like babes in the wood when it comes to rather basic epistemology. A very sad situation. It also means that these people teach economism like (young) priests teach a religion: with a total conviction that they hold the absolute truth. Philip Tetlock puts this very succinctly:

> 'Placed in the broadest perspective, the current findings remind us that decision theorists are not the only people with strong opinions on the nature of good judgment and rationality. Decisions theorists characteristically adopt an explicit prescriptive stance to their subjects of study: there are right answers that can be derived from well-defined axiomatic systems of logic such as Bayes theorem or expected utility theory or game theory. To paraphrase John Milton in "Paradise Lost" their task is to explain the ways of God to man, not the ways of man to God, where God translates for early twenty-first-century audiences as the eternal truths of mathematical models of choice.' (2000: 323)

A whole generation of students has been indoctrinated by the high priests of economism with an ideology that rolls back the achievements of the Enlightenment by feeding them untruths cloaked in the 'pretence of knowledge' (Hayek 1975). The consequences for academia are drastic. Academic work rests on debating different viewpoints in order to get closer to the truth. Should scholars not encourage a critical debate? This should be a rhetorical question

and epistemologists in the Feyerabend vain: both are anarchists. Libertarians reject the notion of a state as an authority above the individual and Feyerabend rejects the authority of the scientific high priests (Popper, in his case) defining what is a fact and what isn't.

as many university mottoes include the word "Truth" (Harvard's motto is of course "Veritas"), but is it? Goshal; Mintzberg, Freeman/Wicks and Parmar (2004) and Bennis/O'Toole (2005) and don't think so and maybe many other academics silently agree but fear the repercussions of disagreement, and so remain mute. It needs brave deans, editors and reviewers to encourage dissenting views. Goshal, Mintzberg, and Bennis are well-established management gurus, but even they (Mintzberg must be excluded) waited until the end of their careers until they dared to be so critical.

Freeman et al. (2004: 364-5) show the pressures to conform to the prevalent ideology:

'More subtly, according to McCloskey (1998), the "maximizing shareholder value" view is put forward as a "scientific" theory that is modeled and verified appropriately by ideologists called "economists." Unfortunately, in an attempt to be accepted by their "scientific brethren," several management theorists have adopted the fashion of accepting the economic view of business activity as the most useful one available and have fallen into the trap of the separation thesis. "Maximizing shareholder value" is not a value-neutral theory and contains vast ideological content.'

Dissenting voices are ridiculed and find it very difficult or impossible to publish papers. As academic careers are build on publications, many researchers will undoubtedly shrug their shoulders and succumb to the considerable pressure to conform; thereby helping to destroy what is, according to Mark Blaug the essence of scientific work:

'Science, for all its shortcomings, is the only self-questioning and self-correcting ideological system that man has yet devised; despite intellectual inertia, despite built-in conservatism, and despite the closing of ranks to keep heretics at bay, the scientific community remains loyal to the ideal intellectual competition... ' (1992: 42)

The struggle between the value-free economists and the more ethically inclined management scholars can be traced back to the first edition of the Harvard Business Review in 1923. Williams expresses his unease about the rational actor (economic man) model and argues that it is a totally unnatural model which causes all sorts of problems in business life:

As an executive of a steel company I commonly heard the shortcomings of the industrial worker explained by reference to the "economic man," that hypothetical person to whom nothing is supposed to appeal "unless it's in his pay envelope." When later I worked and lived among the laborers of both America and Europe, it was an immense surprise to find my companions using exactly this same "pay-envelope theory" to explain the shortcomings of their employers! Manifestly, something must be wrong with any explanation of human behavior which, while so universally accepted as motive for others, is with equal universality refused for one's self. (Williams 1923: 332).

4. Economism is spilling over into society in general

After having established the role of economism in management and having discussed the shortcomings of this research programme, we can now proceed to explaining how economism is destroying much more than management theory. Economism has long ago spilled over into society in general. Corporate governance is only the most visible bridge between management and public life.

Modern Western philosophy and democratic modes of governance are based on the Enlightenment. The most important message of Enlightenment was that an individual not only has the right – but also a moral obligation – to think for himself/herself. One of the Enlightenment's core ideas is that there is no higher moral authority than one's own conscience, and that the individual cannot not delegate moral judgement to either an institution or an ideology. In so doing, it challenged the power of the church, which had insisted for over a thousand years that the authority to enquire and to think was a divine prerogative administered by itself. The quintessence of the Enlightenment philosophy, Kant's categorical imperative, "Act only maxims which you can at the same time will to be universal law"(Paton 1952: 55), does not focus so much on the right to be free, but on the obligation which freedom places on the individual vis-à-vis other individuals. The responsibility for the greater good is not with God or an ideology but in the hand of every individual. The ethical essence distilled from Enlightenment social philosophy, it is still the most important philosophical statement against totalitarianism and ideology.

Economism directly attacks this core of Enlightenment thought because it binds managers to an ideology and its principles and axioms. What is more, it does so disguised as a value-free science. In order to discuss this point deeper I have taken the liberty to re-arrange Sumantra Goshal's arguments (see Figure 3) slightly. This is necessary because, while Goshal raised all the right points, in my view, he stopped his discussion a little bit too early. Perhaps he was bound by too much scholarly restraint, or he was too humble to enlarge the scope from the effect of unethical management theories upon management practice, to that of their wider significance and impact upon society in general. On the other hand, perhaps he simply believed the danger of economism was obvious enough for his readers to make the connection.

The immoral ideology of economism is the result of the confluence of two streams of thought: the pretence of knowledge and gloomy vision. The pretence of knowledge is the result of the unthinking and uncritical application of the three above mentioned axioms. The gloomy vision is based on Thomas Hobbes' view of man; people are egotistical and bad, they always think of themselves first. Goshal attempted to counter this terribly naïve reduction of Hobbesian philosophy – which was created against the backdrop of the horrors of the English civil war – by examples where individuals act not rational in the economic and Hobbesian sense of the word (selfish). Some anthropologists, however, have a more general argument against a Hobbesian view than Goshal: for them the difference between a human being and an animal is the ability to act against one's own interests. Puzzled for a long time by the fact that human babies were extremely slow learners in comparison to young animals,[9] anthropologists eventually theorised that the relatively slow learning of human babies encouraged the development of compassion in humans, as they had to care so much longer and more intensively for their young than other animals If this theory is right, a naïve interpretation of Hobbes' gloomy vision is catastrophically wrong about human nature because it questions the demarcation criterion between human and animal. More important and telling maybe is that economism takes a simple rule of thumb ('humans are selfish') and turns it into an absolute truth ('humans are *always* selfish'). Again, common sense tells us that people are indeed very rarely selfish, because all national cultures condemn selfishness and it would be irrational to go against the whole community all the time. Hobbes' argument after all was, that selfishness is the natural state of humans, he did not mince his word and condemned this natural state as evil. The natural state, however, is covered by culture, religion, the state (Hobbes' Leviathan) and other man-made social technologies. Thus, the gloomy vision wants to turn enlightened and civilised humans into fierce animals, governed by Hobbes' *ius naturalis*.

Goshal (2005: 83) uses a standard scenario from Nobel prize winning game theory to illustrate the absurdity which ensues when the pretence of knowledge and gloomy vision are the basis of a scientific theory:

> "Consider, for example, the "ultimatum game" in which one player, designated as the proposer, is given the opportunity to propose a division of a certain sum – a gift – between herself and another player, designated as the responder. If the responder accepts the proposal, the sum is divided as proposed. If he rejects the proposal, neither player receives anything. In any variant of the self-interest-based model of human behavior, the proposer ought to offer only a token sum to the responder, keeping the bulk of the amount for herself, and the responder ought to accept the proposal since even a token sum is more than nothing, which is the only alternative available to him."

As the players are not the Hobbesian wolfs economist claim they are, but normal human beings with a sense of justice and normally developed moral faculties, the proposers almost never offer only token amounts and the responder would never think of accepting a token amount. What good is a theory whose axioms are so obviously wrong and which does not even help to explain/predict reality, when the worth of economics – like most social sciences – depends on its ability to predict?

Departing from a utilitarian perspective, which Friedman said is more important that the model itself (predictive power over scientific rigour as a lest line of defence), we would like to come back to the ethical dimension. The argument is not really that these theories are not good but that they are inherently evil (Goshal shrunk back from using that word) – because they free managers from their moral obligations. Economism forcefully brainwashes enlightened citizens and turns them into mindless executors of an anti-Enlightenment ideology: "More specifically, I suggest that by propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility" (Goshal 2005: 76).

The New Manager does not have to make difficult value judgements, he simply follows a quasi-mathematical model; New Managers are neutral executors of the economic principle. This ideology has created a number-focused manager who cuts costs, but does not create new business opportunities (Mintzberg/Ahlstrand/Lampel 1999); who analyses endlessly instead of synthesising (Porter 1996: 61; "analysis paralysis: Livingston 1971: 83); who multiplies his salary while he destroys the value of his company and lays off employees by the thousands like Detlef Schrempp of DaimlerChrysler and is still hailed as a role model.[10] The organisational model that represents the rule of the economic principle is the rational-legal bureaucracy (cf. Mintzberg 1979). Bureaucrats also have no responsibility other than following the organisation's logic. The excuse for unethical behaviour is the logic of bureaucracy: the rational principle. "I am only doing my job and it is not really important in the great scheme". Relieving New Managers from their duty to think for themselves and make value judgements must lead to inhumane and unethical organisational behaviour.

The economisation of society has accelerated considerably in the past 20 years. The effect of publicly amoral or immoral managers on the rest of society is a very serious complication. The business schools have played an important role in spreading economism by producing armies of cloned New Managers. However, it is not only through the sheer number of disciples that the business schools have been so harmful. Normally students have not studied business, when they enroll in MBA programmes, but law, medicine, engineering etc. Thus economism spreads across the discipline's borders. Probably even more worrying is that MBA students are not educated, they are trained in a very short time. People who have not learnt the basics of management are taught the most important "tools" of management economics without learning about the philosophical basis or the problematic nature of the tools. In other words, people with blank (and therefore open) minds are indoctrinated with an ideology without being shown

[9] Compare a human baby and a fawn. One learns to run around after 10 months, the other in ten minutes.

[10] Schrempp was made an honorary professor after destroying 50% of his company's stock value because of his exemplary work. The value of his stock options doubled on the day his successor announced that Daimler would divorce Chrysler. Schrempp made most of his money from his biggest mistake. Moral hazard does not begin to describe the situation.

any alternatives. They believe in economism as only the newly converted are able to believe. Have you ever tried to open someone whose mind and soul are firmly committed to the one Truth? 'Against stupidity the very gods themselves contend in vain', Schiller famously quipped. The author is involved in the training of young strategy consultants for a Top Five consultancy and faces the strongest opposition from people who have no management background, except in-house courses. People armed with limited expertise but strong ideological beliefs will not shift their stance, for neither facts nor reason.

The ideology of economism has reached all parts of society, and it replaces a morality based on the enlightened philosophy of the responsible individual. Thomas Kuhn's (1962) socio-historical view of the advancement of science is able to explain why a scientifically flawed research programme may be highly attractive to a majority of scientists and remain the paradigm despite being falsified. In the case of economism the appeal lies in the simplification of a reality that is too complex to be understood with mathematical models. When Einsteins special relativity theory was delivered what should have been a fatal blow ("quantum entanglement" was faster than the speed of light and therefore clashed with Einstein's most important axiom) the academic community refused to give it up. They were right to do so, as Einstein was later able to incorporate into his model what he at first "explained" as "spooky action at a distance". In management and economics the situation is very different. The gloomy vision and the economic man concept have been wrong from start and have consistently been refuted in experiments afterwards. It is high time to lift the head out of the sand and face reality. Not only for the sake of scientific progress in economics and management but also for the sake of modern humane society.

5. Quo vadis?

The economisation of management is maybe the most persistent trend. It has been so persistent that it will be very difficult to reverse it. Arguably the most important management scholars (Mintzberg, Hamel, Goshal, Bennis, Schein, Argyris, Drucker to name a few) have always preached the opposite. It does not bode well for change that the most influential scholars have always stood beside the mainstream. It is also very difficult to see change happening when the flaws of economism are so obvious and the vast majority of professors still feel no need to speak up. Corporate governance is a rather young discipline which has been given a lot of publicity lately because the actual governance of corporations has deteriorated visibly. Therefor corporate governance may be an area where change has a chance. This paper has argued that the reason for the deterioration is the wrong de-moralised theoretical basis of management in general and corporate governance in particular. The role of ethics must given a very prominent role in management theory; it should be obvious that ethics has a direct impact on the governance of organisations. Ethics must be an integral part of any management class, certainly of any corporate governance class. Governance cannot happen through administrators; the creators of democratic countries were all entrepreneurs of freedom. Laws are interpreted by wise men, not applied by law programmes. While wisdom cannot be learnt, the structure of morality can be learnt. That should be the least that managers take with them from business schools when it come to leadership. The writings of Henri Fayol, arguably the first management scholar and great antipode of FW Taylor, are permeated by the notion that managers must be wise and decent judges. If the judges are not wise, if they cannot handle complex decisions, but are simpletons who – because they have never learnt to think for themselves – have to follow Milton Friedman's mono-rule ethics of maximising the shareholders' returns,[11] how can employees respect them? How can these *ersatz* managers respect themselves at the end of the working day, at the end of their careers? The concept that the fish always smells from the head is known to most cultures. The governance of any organisation depends to a large degree on the good ethics of a few good and trusted men and women, not on a piece of paper. Paper does not blush, as is obvious in the case of the *German Corporate Governance Kodex*. Many companies signed up and then conveniently forget major codices. The *Kodex* for instance limits the number of directorships a single person is allowed to hold to five. This provision violates Friedmanian logics and it consequently ignored by many directors. Why should you limit your income? The argument you cannot effectively supervise the top managers if you are a member of a large number of supervisory boards, is obviously less convincing than the argument that managers should be egotistical maximisers. Laws and regulations only go so far, personal ethics are ever present and thus act as a much more effective regulator of human behaviour.

With hindsight one can see a straight line from the 1960s to today's managers who are increasingly morally blind. Ethics classes are electives, chosen by softies who are not really interested in a career. In 1971 J Sterling Livingston stated that managers 'mired in the code of rationality' refuse to accept responsibility. John S Tomajan (282) named his 1945 Harvard Business Review contribution 'But Who Is To Lead The Leader?' and concluded that, '[t]he true leader will be entirely selfless.' Selfless, not selfish. The leadership of a company must have a moral compass to be able to lead. The business schools must

[11] Maximisation is a totally unscientific concept anyway, because it assumes that time does not exist. How else do managers know that they are actually maximising profits in the long run, when they maximise them in the current fiscal year? That works only, if managers would be able to see indefinitely into the future.

start to acknowledge the moral vacuum at the top and accept that this in part their responsibility. All people who manage other people (one cannot manage numbers) should also be educated in ethics. Once again, laws and codes do not guide peoples' behaviour as effectively as ethical beliefs. Business schools must stop pumping out soulless maximisers and start to produce educated managers. Otherwise, those who manage will always be tempted to maximise their benefits to the detriment of those they manage and the companies they are supposed to lead to prosperity. A recent research programme, which receives support from many sections of the management community (McFarland 2001, Badaracco 2001, Collins 2001, Mintzberg 2004, Neuschel 2005), stresses that leaders serve and that the best leaders do so silently and humbly.

6. Conclusion

I proposed that the ideology of economism has displaced traditional management theory almost completely. This was achieved mainly by pushing the economic principle (efficiency) more and more to the forefront until it was the only consideration of managers and professors, and at the same time turning effectiveness into a mere constraint. Afterwards I elucidated the massive deficiencies of an ideology that raises theory above reality; focuses on what it assumes to be more easily quantifiable; and assumes that all humans follow the same mathematical formula when they engage in any economic activity. Taken together these axioms of economism create a de-humanised and amoral theory which, when applied, causes managers to behave immorally yet within the moral obligations of their profession as propounded by Friedmanian management scholars. We finally proposed that this immoral (or evil) behaviour by managers cannot be contained within the world of business and slowly but surely is corroding the basis of Western civilisation, Enlightenment. This would close the gap in the feedback loop from management theory to management practices to societies' moral standards, and back to management theory. A vicious circle spinning out of control is gaining momentum. Last but not least we have pointed out that true management scholars like Mintzberg, Bennis, Goshal, Drucker and before them Fayol have always proposed that management is a complex (not simple), highly personal and situational (not following one "law"), and above all moral (not technical) activity. There is no need for a radically new management theory as the basis for corporate governance – it has been there all along.

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Appendices

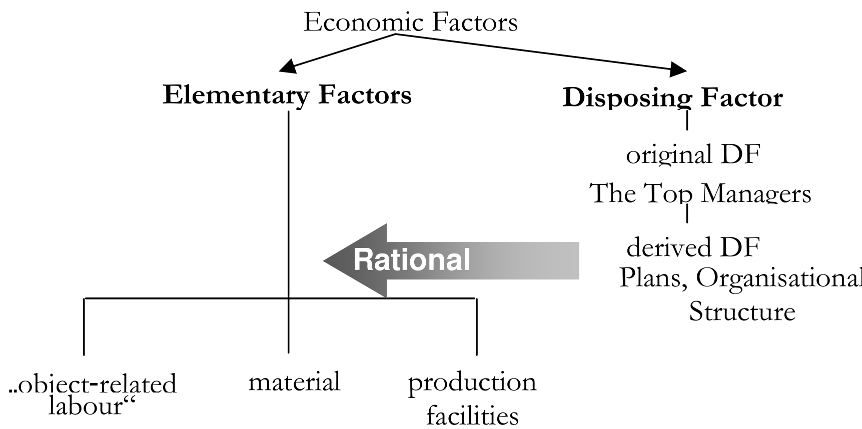

Figure 1. The organisation, own figure based on Gutenberg (1983, p. 234)

Criterion	Weighting	Porsche	Opel	Ford	BMW
Turnover					
No of Employees					
P/E Ratio					
Technology					
Image/Brand					
Sum					

Figure 2. The decision matrix (source: own)

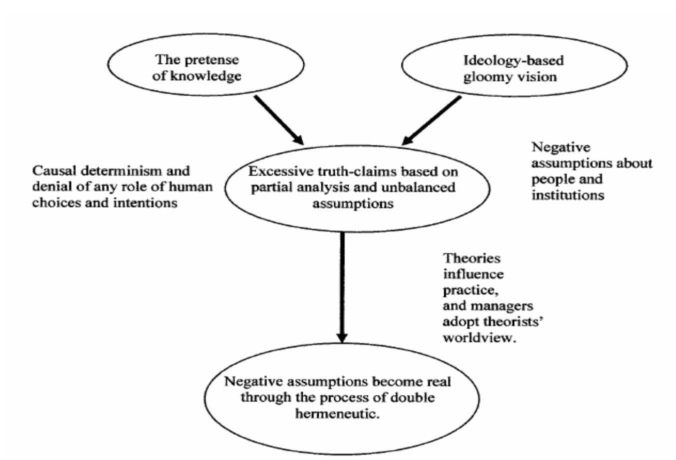

Figure 3. Goshal's process of bad management theories destroying management practices (Goshal, 2005, p. 76)