



Victor Perez-Noguera

Executive Book Summary The Moral Capital of Leaders Why Virtue Matters

By: **Alejo Jose G. Sison**

This book engages the reader from opening paragraph right through the last sentence. The author introduces all themes with case studies, which this reader believes to be a very effective way to get points across. All case studies were carefully chosen and were always topics which everyone has heard of. Particularly for me, a business professional, absolutely every case discussed herein was well known and in the news. Sison picked cases which really showcased and made wonderful introductory discussion to the topic of each chapter.

This executive book summary will touch on each case study and theme in the same order as appears in the text.

Understanding labor

The case study depicted in the beginning of this chapter is the airport screener's security outsourcing prior to and leading up to 911. Passenger screening has always been considered an unprofitable sector in airport operations which was readily outsourced to private companies. These firms paid terrible wages, hired anyone, and scarcely, if at all, managed the screeners. The result was disastrous. Screeners, quite often non native speakers of English, with criminal backgrounds, poorly managed, were in charge of security in our airports. (p.2) Sison introduces and illustrates the notion of "human capital" with this case study.

After lengthy economic discussion, presenting various theories, "capital" is defined and framed within the context of understanding labor. "Human capital allows the capitalization of labor. Labor is no longer viewed as a commodity measured in of brute force, but as the object of investments in the form of education, health, and training. These investments are all meant to improve worker productivity." (p.22)

Too much economic rhetoric cluttered this opening chapter. Less would have achieved the same outcome. Sison set too large a stage to frame the idea of "capital" which appears in every subsequent chapter.



The Moral Capital of Leaders

Why Virtue Matters

Alejo José G. Sison



**New Horizons
in Leadership
Studies**

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Moral capital and leadership

The Enron case study brilliantly illustrated that moral capital is the back bone to business success. Any enterprise, no matter how much of any other type of capital they possess can ever be successful if they lack moral capital.

Human beings are constituted by the interaction and operational cohesiveness of three fundamental areas. Actions, habits and character. Those who have virtuous character also possess virtuous habits which they acquired from performing virtuous actions. Organizations will always require decisions be made and as is often the case, without any clear guidelines as to how those are made. Leaders make these decisions which transform or effect changes in the organization. They are the visionaries and bearers of will that direct change. Leadership is defined within the context of a reciprocal relationship which entails voluntary followership and goal setting. "A good leader is one who is morally upright and professionally effective at the same time." (p.43)

Moral leadership is a two way morally uplifting relationship between a leader and followers that is based on the trustworthiness of the leader which is a token for moral capital or virtue of character. The power of persuasion is focused on the virtue of character.

Enron: Pride comes before the fall.

The case study in this chapter was Enron. "The moral of the story then, as a senior manager put it, was that one could break the rule, cheat or lie, but as long as he made money -at least in Enron, with Skilling, -this mode of conduct was perfectly alright." (p.26)

Enron's public demise made headlines worldwide because nobody imagined this could ever happen. Enron was the model others aspired to be. In the end, this was a case about deliberately misleading and covering up any and all traces of such actions.

Enron's executives lead by example, in other words, their misconduct paved the way for their corporate culture to run amuck. It even had spill over effect unto their auditors at Anderson, now defunct as a consequence of their involvement with Enron's books and their alleged paper shredding.

"They lacked nothing but honesty, the bias of putting the interests of the people whom they were supposed to serve before their own, diligence in the performance of their oversight duties, and trustworthiness. In short, they lacked moral capital." (p.30)

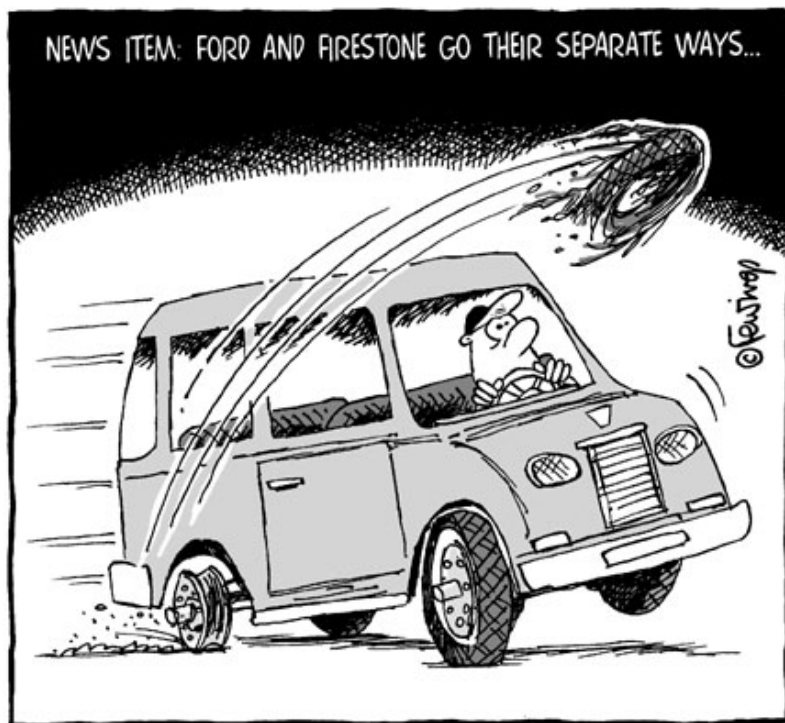
"Moral Capital is not what makes a person strong, or smart, or thrifty (instead of being liberal or generous); it is not even what makes a person successful in business. Rather, moral capital is what makes a person a good human being." (p.31)

Aristotle believed there are three means available to a leader to persuade his/her audience: "Speech or the argument itself (logos) the character a speaker projects (ethos) and the emotional dispositions of the listeners (pathos)" (p.43) Character is considered the controlling element in persuasion.

Aristotle confirms three character traits leaders must possess if they are to earn trustworthiness by their followers: "Practical wisdom (pronesis), virtue (arete) and good will (eunoia) (p.44)

Sison argues that moral capital, which he describes as excellence of character, is dependant on whether one cultivates right habits or virtues.





"In both Ford and Firestone, and among the executives they had at the helm, there had been an excess of zeal in finding fault with others, and perhaps a dearth of courage in assuming responsibility for their own actions." (p.54)

Actions, moral capital's basic currency

Sison raises the bar when discussing actions as essential for moral capital. "Moral capital is built upon actions, on the exercise of actions, and not on the mere possession of capacities for action." (p.63) It is not about been capable of an action, it is about in fact exercising that capability and putting the action into place. Sison makes the point about actions being moral capital's basic currency "because nothing acquires moral significance unless it issues into action or comes as a result of it." (p.66)

Ford and Firestone had knowledge of their products' troubles. They had the capacity to "act" they could have recalled much earlier on, but chose to not only not act, but to actually go further and cover up their prior knowledge.

Another cases study in this chapter is the story behind the Cantor Fitzgerald Offices located in one of the towers that collapsed after the terrorist attacks on 911. Howard Lutnick, CEO of Cantor famously took all deceased Cantor employees off of payroll after attack which was severely criticized by family members and the community. Lutnick also availed significant funds to family members who lost a loved one, who was also the main family income source, after the attacks.

The Cantor case is an example were actions were taken, in spite of being controversial, but which resulted in better outcomes for family members. Keeping deceased on payroll jeopardized Cantor's viability, but funding family relief was an action that was entirely about mustering moral capital.

The Ford - Firestone finger pointing exercise

The case study in this chapter was the Ford - Firestone fiasco involving faulty tires on SUV's. In a never ending blame game, both companies stood by their products and questioned the other's good sense. They even went as far as to blame the customer when all else failed.

It all started when Ford Explorer's equipped with Firestone ATX tires started rolling over and killing passengers. Engineering experts from both companies determined equally plausible explanations for the roll-overs. Ford attributed the problem to improperly inflated tires that were also defective, faulty tread adherence, to be specific. Firestone rebutted insisting their tires were not defective, they were improperly inflated according to Ford's improper guidelines. Plus the fact that the Ford Explorer had defective engineering which made their vehicles center of gravity too high.

In the end, after many internal documents from both companies surfaced, both Ford and Firestone knew the roll-overs were occurring and failed to disclose to the public the dangers with these products. Once Good-year tires replaced the Firestones, the problem went away.

Covering up the truth to save millions in recall and tire exchanges defined this case study. Both Ford and Firestones damaged their brand as a result of their actions.

Microsoft's Mantra - Extend, Embrace and Extinguish

The case study in this chapter was Microsoft's various bouts in the courtroom defending its predatory business behaviour and alleged bundling practices to ensure it monopoly.

It all began when Microsoft was sued for limiting the entrance of competitors into the browser market by bundling its products with the licensing of Windows to PC makers. Microsoft's Internet Explorer was the only browser allowed to be installed on any PC wishing to run the Windows operating system. PC makers like Compaq, HP and Dell felt pressured to offer IE when customers were demanding alternatives like Netscape be offered instead.

Microsoft defended its practice citing compatibility to be foremost in customers interests. Netscape decried anti trust violations saying sales bundling IE to Windows was a de facto habit of Microsoft to ensure only their IE product gained dominance in the market.

In the end the various trials were significant for consumers since the courts ordered Microsoft to stand down and licence Windows independent of whether the manufacturer chose to preinstall Explorer or Netscape.

Bill Gates credibility was hurt as a result of Microsoft's business practices. It came out in court that many internal memos and emails outlined Microsoft's plans and 'habit' of engaging in strong arm tactics and bullying techniques that forced manufacturers' choices.

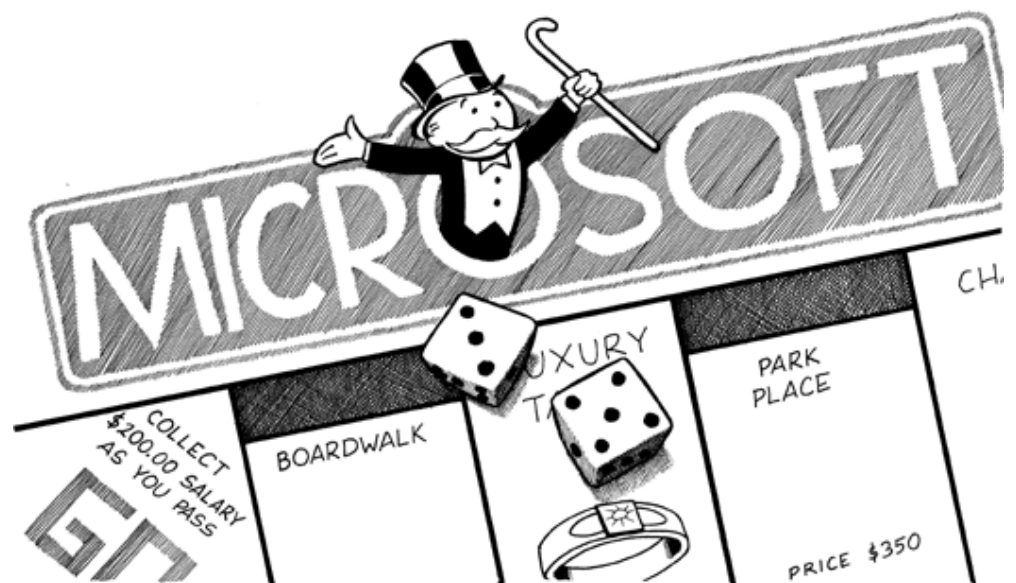
Habits, moral capital's compound interest

When voluntary human actions are repeated, habits are formed. "Habits are the 'compound interest' of moral capital; they are what make one's level of moral capital grow higher, faster, and stronger." (p.80) When relating to corporate behaviour, protocols or standard operating procedures are the equivalent "habits" for humans.

Sison elaborates on necessary conditions that need to be present for individuals to acquire habits. Time and freedom are discussed. Freedom is broken down into three further types: Physical freedom, psychological freedom, and moral freedom. Habits affect and perfect moral freedom.

"Habits display a peculiar dynamism in their acquisition, growth and perfection. The performance of an activity itself creates the capacity for it, in the form of a habit. A habit grows through the repetition of actions: practice makes perfect." (p.92)

"The government had to prove a habit or pattern of behaviour in Microsoft that consisted in bullying industry partners and rivals, thus hobbling any potential challenge to its de facto monopoly and harming consumers by stifling innovation and overcharging." (p.73)



Character, moral capital's investment bond

The HP and Compaq merger history was presented as the case study to illustrate character in this chapter. Sison goes to great lengths to recap the minutia of the history between all warring factions and the court battles that followed surrounding the proposed takeover of Compaq by Hewlett Packard under Carly Fiorina's tenure at HP. In the end, in spite of the different "characters" of the HP way, Fiorina's character and the nature of Compaq, the merger was approved and materialized after all.

Sison believes "character results from the unique combination of habits that each person develops. It denotes a permanent state of being that is more stable than feelings or mere capacities for action. As such, character is a better expression of a person's mind and will, and entails a deeper sense of moral responsibility and identity than individuals actions or habits." (p.115)

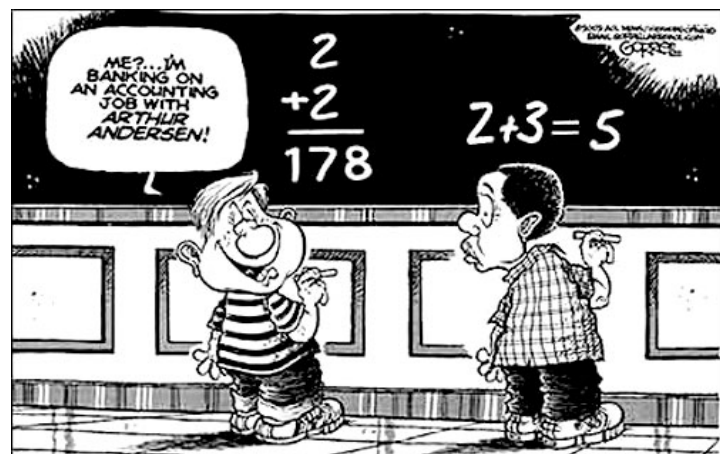
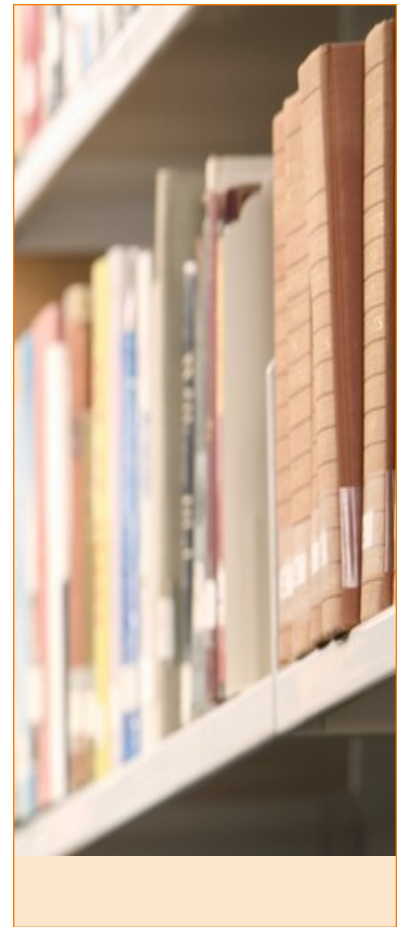
The most interesting argument the author makes is equating character in persons to corporate culture in companies. I did not agree with Sison's financial metaphor of character as being moral capital's investment bond. These are financial instruments to raise funds, I did not buy the correlation that character has or could have as somehow a fund instrument for moral capital. Perhaps this is my shortcoming for not understanding it, or it was insufficiently explained. This was a missed opportunity for the author.

Lifestyles and moral capital estates

The two cases studies presented in this chapter are quite interesting in and of themselves but a rather unique selection given the topic. He first one was the case of Arthur Andersen consulting and their demise resulting from their actions regarding Enron. The second case was the story of Jack Welch and his history and tenure at GE.

Since Sison is arguing that "an organization's corporate history is the equivalent of an individual's lifestyle and biography" (p.143) both cases illustrate the points made quite well.

It is argued that lifestyle is really a reflection of a persons feelings, actions, habits and ultimately character. They are collectively encompassed into the term moral capital estates , since after all they are a "wealth" of sorts.



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I'm a Master of Public Administration candidate at the Johnson Shoyama Graduate School of Public Policy at the University of Saskatchewan. Writing an executive book summary was assigned for PUBP 898.3 Public Leadership: Theory & Practice. This elective course was taught by Dr. Keith Walker, Dr. Greg Marchildon, and Mr. Roy Romanow during the winter term of 2010. This course "provided students with an understanding of selected theories and practices of public leadership for various informal and agentic roles at local, regional, provincial, and federal levels." (Course Syllabus)

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