CREATING COMPUNCTION:  
THE RISE OF THE BUREAUCRATIC ETHIC  
AND THE ROLE OF LEADERSHIP  
in Capitalism  

Why Leaders Must Establish a Positive Work Ethic  
In Order to Solve the Principal-Agent Problem  

January 31, 2003
What makes some leaders great, others terrible, and the rest forgettable? Even the leaders themselves are unable to supply a single answer. There are those that attribute success primarily to circumstance, subscribing to a belief in the heavy hand of fate – or in dumb luck. Some cite a personal commitment to integrity, though so little as a cursory glance at history reveals such an assertion to be lacking. Still others formulate long lists of official characteristics, ranging from temerity, to selflessness, to empathy. Yet despite the multifarious opinions on the subject, a precise definition of leadership remains elusive. Leadership is notoriously impossible to articulate but remarkably simple to recognize.

With the purpose of moving towards a working definition, a brief description is necessary for reference. The audience begins to form its opinion of a leader not when he opens his mouth, but when he enters the room; presence – the way he carries himself – is crucial to the projection of his image. In that same vein, what the leader says is just as important as how the leader says it. Arguments are compelling when the logic is both sound and well-conveyed. Confidence, an integral part of presence, must be communicated effectively while simultaneously avoiding the trap of sanctimonious pontification. Being able to deliver a scripted speech is not enough; impromptu questions have to be answered with aplomb and honesty. Furthermore – and here perhaps lies one of the leader’s greatest challenges – there can be no separation between individual self and leadership persona while in public. Audiences are highly attuned to consistency and sincerity and, as a result, the best leaders are those that fill the role most naturally.

If a leader must consciously follow a set of predetermined guidelines, the time spent concentrating on his carefully-fashioned persona will detract from time that should
be spent in more worthwhile endeavors, particularly the formulation of policies that further a strong work ethic. A leader may be effortlessly charismatic and unfailingly sedulous, but if he is unable to produce the desired results from his followers, his leadership is meaningless. No worker will moil away his life in an office dungeon without a sense of purpose and adequate compensation.

Within the context of an economy driven by capitalism, the acceptance of a societal work ethic becomes ineluctable in order to avoid the principal-agent problem. All societies face the dilemma posed by the inherent divergence between the interests of the principal (leader) and the interests of the agent (follower); reconciling the disparity requires establishing a self-perpetuating culture of prevention and enforcement. In short, society must draw up a contract that defines the roles of principals and agents through the implementation of a particular ethic.

The principal-agent problem is best explained at the microeconomic scale. When determining corporate policies, the employer is faced with employees in possession of informational advantages. It would be impossible for single employers to have knowledge equal in scope to the collective knowledge of their individual employees. Beyond this elemental disadvantage, employers must also address concerns with regard to malfeasance; providing the motivation necessary to circumvent the chronic problem of shirking poses a continuous challenge for those in managerial roles. Effectual employers find an appropriate balance between effort incentives and punishment threats – the proverbial carrots and sticks. Myriad factors may influence the balance; for every industry, there are unique agency costs associated with the two methods.
Discussions of both corporate leadership and social responsibility naturally lend themselves to the principal-agent problem. Whether the focus is the role of the executive or the means of obtaining support for progressive reform, the conversation always returns to question of how to hold agents accountable to their contracts. “It is rather generally understood that although money or other material inducements must usually be paid to responsible persons, responsibility itself does not arise from such inducements.”

Ultimately, principals have to resolve the conflict between the individual aspirations of their agents and the interests of the corporation as a whole.

The greatest virtue of the Protestant Ethic was not theological, but motivational. By tying economic success to Christian predestination, Calvinist ethic and capitalist ethic grew so intertwined so as to be indistinguishable – Adam Smith’s famous metaphor describing capitalism’s “invisible hand” is in fact taken from the work of John Calvin. The relationship continued for centuries: Andrew Carnegie titled his treatise on philanthropy *The Gospel of Wealth*, unashamedly cloaking his economic principles in religious terminology. For a society believing in the doctrine of predestination, prosperity became an easily identifiable sign of divine grace.

Moreover, the opprobrium attached to poverty to a large degree solved the principal-agent problem plaguing free market competition. Under the Protestant Ethic, all parties worked in a state of cooperation because of their common belief in a contract with God. Problems of shirking and materialism – perhaps the issues of greatest exigency in today’s corporate world – were neatly skirted by society’s imposed standards. “This ethic of ceaseless work and ceaseless renunciation of one’s toil provided

---

both the economic and the moral foundations for modern capitalism.”² But although capitalism was reliant on the Protestant Ethic during the incipient stages of its development, there is no longer a compulsory connection between the two.

The beauty of the Protestant Ethic lied in its easy elimination of the awkwardness between two historically ill-favored bedfellows: private ambition and public good. As soon as that division disappeared, a positive attitude was able to take hold. “It was an exuberantly optimistic ethic. If everyone could believe that seeking his self-interest automatically improves the lot of all, then the application of hard work should eventually produce a heaven on earth.”³ Men were still able to pursue achievement selfishly, but with the understanding that the earthly reward for success was social advancement, not material pleasure. Philanthropy played an influential role in entering the upper echelons of society. However, the proliferation of philanthropic overtures had the effect of eroding the spiritual basis for charity. Optimism prevailed, and charitable donations abounded, but the intended theological meaning behind the action was eventually sacrificed to secular economic forces.

The increase in the influence of such secular forces directly mirrored the increase in the size of private businesses. While relatively small businesses dominated the economic scene, the Protestant Ethic reigned supreme. Small-scale operations naturally emphasize the role of the individual. In the context of Calvinism, a man can distinguish himself as one of the elect through the positive returns of his own fiduciary initiative. The entrepreneurial spirit continues to be glorified: “the small business is praised as the acorn from which a great oak may grow, the shadow of one man that may lengthen into a

large enterprise.”⁴ With personal initiative comes a significant dose of personal freedom; very few constraints are in place to contain ambition, but, in the end, the principal alone is accountable for his business ventures and decisions.

The rise of larger corporate institutions has replaced the Protestant Ethic with the Bureaucratic Ethic. In the bureaucratic world, individuals are marginalized rather than glorified. From the perspective of the corporate psyche, job title takes precedence over given name. “Men are neither good nor bad, but only good or bad in this or that position.”⁵ There are no truths, no falsehoods, but instead elaborate codes of behavior. Robert Jackall identified elements of corporate codes after interviewing a cross-section of managers: “appearance and dress,” “self-control,” “perception as a team player,” “style” and “patron power.”⁶ Until the rise of the Bureaucratic Ethic, the idea of corporate culture was nonexistent. Today, success hinges on Jackall’s articulated elements – in essence, on political cultures and loyalty stratagems.

Where the Protestant Ethic was eternal and absolute, the Bureaucratic Ethic is transient and fickle. If one uses symbols for explanation, the latter would be a circle and the former would be a straight line. “The core of the [Protestant] ethic, even in its later secularized form – self-reliance, unremitting devotion to work, and a morality that postulated just rewards for work well done – was undermined by the complete transformation of the organizational form of work itself.”⁷ This assertion should be considered, but it should also be made clear that the Bureaucratic Ethic is not inherent to

---

⁴ Whyte, p. 19.
⁵ Barnard, p. 218.
⁷ Jackall, p. 119.
bureaucracy itself. Bureaucracy is merely the necessary delegations of authority and responsibility in order to sustain the efficacy and productivity of a large organization.

Thus, the crux of the problem is the striking disassociation between leadership and responsibility. To return to Jackall once again, “In the bureaucratic world, one’s success, one’s sign of election, no longer depends on one’s own efforts and on an inscrutable God but on the capriciousness of one’s superiors and the market.”\(^8\) Systems in which blame and credit are removed from those responsible cannot sustain pure meritocracies; before long, promotions become gambles between fealty and performance.

Although there is no doubting the merits of the argument favoring job placement based on more than academic competency, the alignment of current practice borders on the extreme. Reform of the current system must begin with a renewed sense of responsibility among corporate leaders.

Three of the speakers that visited class are particularly emblematic of the conscientiousness in absence at many corporations. President Morton Schapiro, Chris Flavin, and Carl Vogt displayed an incontrovertible sense of responsibility with regard to the gravity of their respective missions. Nevertheless, as leaders, they also differed greatly in terms of two critical characteristics: nobility and efficacy.

Schapiro’s leadership is overwhelmingly effective, but remarkably wanting in nobility. Because of his avuncular qualities, Schapiro is a far cry from the fatherly presence traditionally characteristic of many college presidents. His lecture was carefully scripted yet candid, professional yet casual, formulaic yet personal. These contradictions are not enough to prevent his gaining the audience members’ respect (in fact, the high-wire act is quite impressive), but more than sufficient to prevent his gaining their trust.

\(^8\) Jackall, p. 130.
With charisma that borders on the realm of chutzpah, Schapiro leaves the listener with little doubt as to his determination. Not only does he clearly define his vision, he will do everything in his power to achieve that vision, even if there are casualties along the way. One doesn’t doubt his integrity as much as one recognizes his dedication to the bottom line of success. His ability to inspire compunction rises from his unspoken offer: You and I both want the best for Williams; leave me to my own means and I will achieve the desired end. Hence, agents are compelled to cooperate with principals such as Schapiro because of the appeal to common interest.

Flavin, on the other hand, possessed so much nobility as to render him ineffective. To support environmentalism is intrinsically noble, making the formulation of a convincing argument extremely problematical. The leaders targeted by Worldwatch and other similar groups will only respond to the message and implement bona fide change if their corporate interests coincide, economic or otherwise. While the idea of saving humanity from destroying its own future has high-minded appeal, without a detailed history of accomplishment Flavin’s organization is largely impotent. Well-intentioned research reports and statistics are not enough. When Flavin delivered his lecture, the information was lost behind his ineffective leadership abilities and inadequacies as a public speaker.

Vogt trumped both Schapiro and Flavin by effortlessly imparting nobility, efficiency, and dignity to boot. From his height, to his posture, to the timbre of his voice, Vogt simply oozed leadership. It is probable that his training in the military and at law school greatly contributed to his presence, but beyond education, Vogt seems to be living
proof of the possibility of “greatness” in leadership. How he has attained all these admirable qualities is less clear than the reality that he possesses them.

During the question and answer session that followed his lecture, Vogt was asked to discuss the best way of approaching professional duties in a temporary position. Vogt accepted the offer to become president of Williams with the understanding that his tenure would serve as a brief transition for the duration of the search for a more permanent selection. Under such circumstances, leaders face two divergent courses of action: to concentrate efforts on the business of smoothly maintaining existing operations, or to use the time as an opportunity to shake up the system, reevaluating a plethora of policies without fearing the consequences of change. Though managers often choose transitional executives with the intention of moving seamlessly from one administration to the next, Vogt had no qualms about setting his own agenda. His leadership style is undeniably progressive and therefore resistant to the perfunctory mentality.

Comparing Schapiro, Flavin and Vogt leads to a compelling and controversial conclusion – noble aspirations may contribute to a leader’s greatness, but not to his success. It may sound harsh, but the best intentions in the world are meaningless without achieving results. History rarely remembers the leaders that were satisfied with mediocrity. Yet this supposition does not address still another question: Should a capitalist society concern itself with the intentions of its leaders, or do the ends justify the means? Proponents of social responsibility would argue that the ends will be empty of value if the means employed are injurious. Furthermore, the propagation of socially responsible capitalism has promulgated the idea that making a profit and ameliorating society are not mutually exclusive objectives. Conversely, to the skeptic, whether or not
social responsibility is profitable is irrelevant; the only matter of true import is the
formula for success which produces the greatest profitability because leaders have an
obligation to maximize returns.

In truth, however, both positions will result in an overall improved socioeconomic
situation; the inequalities between the benefits are the rightful source of the debate. The
greater concern at hand is the power of the Bureaucratic Ethic, which, when followed to
the letter, creates a corporate culture entirely without any sense of obligation. The mazes
through which the organizational man must traverse destroy connections between
businessman and shareholder and businessman and stakeholder, respectively. Because so
many corporate functions involve intangibles and abstractions, there is nothing to prevent
employees from ‘going through the motions.’ The division of labor and the diffusion of
responsibility imposed by a bureaucratic system remove task from result; the middle
sector of the workforce has no awareness of the fruits of its labor. Without an
overarching recognition of purpose, business becomes about playing the game and
escaping the maze.

Here the imperative for quality of leadership becomes evident. To the cyclical
dogma of the Bureaucratic Ethic, “adventness at inconsistency, without moral uneasiness,
is essential for executive success.”9 If such a system is allowed to persist, the cultivation
of good leadership will be severely hindered. Leaders that have not learned to face
consequences will be useless when launched into the higher dimensions of the executive
world. In the end, the Bureaucratic undermines not only the formation of competent
corporate executives, but even the concept of the corporation itself. The word ‘corporate’
is used to designate an organized group of individuals joined by common interest; to

9 Jackall, p. 129.
eliminate common interest is to chip away at the very heart of corporate dominance in the business world. Although the Protestant Ethic was not without faults, its near-elimination of the principal-agent problem posed by the relationship between management and labor was buttressed by its fostering of strong leadership. The Bureaucratic Ethic described by Jackall has attempted to fill the void created by the secularization and decline of the Protestant Ethic, but has failed. Bureaucracy is not the culprit, but rather deteriorating respect for responsible work and personal integrity. Before long, the ability to function within the corporate maze will be exhausted and great leaders will have to step up and deliver business from its own trap; then perhaps the definition of ‘corporate leadership’ will regain its meaning once again.
TO:

FROM:  Kai Lee

SUBJECT:  Paper & course performance

Discussion of social responsibility (40-50 pts)
Wide-ranging and theoretically ambitious.
Your conclusion, that great leaders are needed to rescue capitalism from the Bureaucratic Ethic, seems more persuasive than inevitable to me...

Discussion of leadership (50-40 pts)
A thoughtful, probing discussion of readings, which you use effectively to frame an insightful comparison of three speakers. I don't entirely agree with your reading of these visitors but am impressed by your abilities as a writer and an analyst....

Writing and mechanics (10 pts)
You write with power, in a way that lures insight from analysis...

Grades
Participation & hosting: Thoughtful when you contributed, though this paper suggests you were thinking a lot more things that were worth sharing with the rest of the class. Capable hosting and fine attendance.

<table>
<thead>
<tr>
<th></th>
<th>weight</th>
<th>score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social responsibility</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Leadership</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Writing</td>
<td>10 pts</td>
<td>10</td>
</tr>
<tr>
<td>Paper</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Participation</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>Course grade</td>
<td></td>
<td>H</td>
</tr>
</tbody>
</table>
We have enjoyed working with you this January and look forward to seeing you in the months ahead.

cc: John Chandler