Journal of Business Ethics (2010) 96:249–263
DOI 10.1007/s10551-010-0463-8

Private Equity and the Public Good

Kevin Morrell
Ian Clark

ABSTRACT. The dominance of agency theory can reduce our collective scope to analyse private equity in all its diversity and depth. We contribute to theorisation of private equity by developing a contrasting perspective that draws on a rich tradition of virtue ethics. In doing so, we juxtapose 'private equity' with 'public good' to develop points of rhetorical and analytical contrast. We develop a typology differentiating various forms of private equity, and focus on the 'take private' form. These takeovers are where private equity funds are used to buy all a firm's publicly listed shares. Take private deals reduce reporting requirements and lessen the amount of public scrutiny a firm comes under. They allow greater control of a firm's assets and resources but also have effects in terms of the wider social fabric. The 'public good' and virtue ethics offer an alternative basis for theorisation of these deals. This provides a needed contrast to accounts of private equity based on agency theory.

KEY WORDS: common good, equity, public interest, public good, private, virtue

Though a great deal has been written about private equity in recent years, most of this literature has been concerned with corporate finance or business strategy (Benjamin and Margulis, 2005; De Clercq and Dimov, 2008; Filatotchev and Toms, 2006; Fraser-Sampson, 2007; Gopalakrishnan et al., 2008; Kaplan and Schoar, 2005; Keil et al., 2008; Wright and Lockett, 2003). The ethical implications of private equity are comparatively under-studied (Folkman et al., 2006). The potential negative consequences of private equity buy-outs: on employment terms and conditions, and on wider society; are nonetheless apparent (Froud and Williams, 2007).

As well as the effects of private equity deals on the workforce, and on pension funds, the potential for profiteering raises ethical concerns. The scandal relating to the buy-out and demise of the MG Rover car manufacturing group in the UK is a case in point. The 'Phoenix Four' – a consortium of local businessmen, including the former Chief Executive of MG Rover – made a profit of £42 million during their 5-year ownership of the company, which they bought for a token £10 and left with more than £1 billion in debts (Webb et al., 2009). Whilst the popular media have been quick to condemn and vilify these individuals, there is a need to develop more systematic, theoretical accounts of private equity.

In this article, we contribute to theorisation of private equity and open up space to consider the wider implications of private equity deals. The agency theory of the firm which underpins the logic of many private equity deals neglects these wider effects. The dominance of agency theory (which is discussed in detail below) is such that there is a danger we have a monolithic representation of private equity. To develop contrasting representations of social phenomena is valuable since it enhances our collective scope to analyse them (Ferraro et al., 2005; Ghoshal, 2005; Zald, 1996). This article contributes to our understanding of private equity by proposing just such a contrast. This draws on the concept 'public good',[1] which can help to, 'correct the distorted prioritization of the maximization of profit in every business decision' (O'Brien, 2009, p. 35). The article is structured as follows: we first analyse the term private equity and propose a basic typology; we then discuss large 'take private' deals and the agency theory of the firm which underpins the argument for such deals; next we argue there is a need to offer a contrasting perspective to agency theory and introduce the concept of public good to develop points of rhetorical and analytical contrast. We conclude by advocating the relevance of a virtue ethics perspective on private equity and the public good.

Private equity

A typology of private equity

Private equity is a catch-all term for a multiform asset class that goes towards making up a highly diverse fund management and venture capital sector. In basic terms, the sector can be thought of in terms of four kinds of transaction, reflecting broad delineations between: (i) 'venture' and 'buyout' deals (Fraser-Sampson, 2007) and (ii) deals that are comparatively 'simple' or 'complex', where complexity refers to the number of actors and their interrelationships (rather than the intrinsic complexity of an investment decision). Confusingly, individuals and organisations describing themselves as 'venture capitalists' often undertake buyout activity and fund buyouts (Wright and Robbie, 1998). Nonetheless a basic distinction between venture and buy-out private equity is tenable, as is a distinction between comparatively simple and more complex deals.

In terms of venture private equity, in simple (small scale and domestic) deals private equity provides capital in return for equity to finance growth (Benjamin and Margulis, 2005). The second, more complex venture deal can come in the form of larger corporations seeking to maintain or sustain competitive advantage, scanning the horizon for the kinds of breakthrough innovations that often come from smaller, more entrepreneurial firms (Barney, 2002). Larger firms who employ corporate venture capital may be investing in their own capability as much as seeking to generate profit, hence this model is closer to a strategic alliance than a straightforward swap of investment for equity (indeed it may not strictly constitute equity if investment is simply recorded as debt) (Gopalakrishnan et al., 2008).

In terms of buyout private equity, this includes simple (small to mid-sized, domestic) transactions such as those involving management buy-outs (MBOs) and in some cases buy-ins (MBIs) or a mixture (BIMBOS). These usually relate to established but private (in the sense of unlisted) companies. The more complex, larger kind of buy-out involves very large domestic or international transactions. Here, private equity firms use a combination of equity and bank debt to finance the purchase of all publicly quoted shares in a company: a 'take private' deal. Firms specialising in 'take private' deals often do this as a precursor to radical restructuring, potentially selling assets to support debt levels incurred in a purchase and altering the terms of employment in relation to working conditions, pay and pension provision (Froud and Williams, 2007; Clark, 2007). This kind of radical restructuring (which advocates of some take private deals would maintain is necessary to ensure corporate survival) is more easily accomplished away from the glare which such changes might attract in an ordinary public company. This basic typology is shown in Figure 1.

Part of the difficulty with analysing private equity critically from a business ethics perspective is a result of diversity in the sector. Many different activities are described as private equity and the superficial, unitary gloss this term provides can be unhelpful. Investment by venture capitalists in a would-be entrepreneur working out of their garage bears no resemblance to corporate takeovers by massive collective investment schemes. The mythologised provision of expertise by a 'Dragon' or 'Shark' (to use the popular terminology from TV shows) is worlds apart from the brokering of such large transactions. Despite such clear and obvious contrasts, it is not easy to categorise private equity. The four kinds we have chosen: venture capital, corporate venture capital, mid-sized buy-out and large buy-out; are inevitably simplifications. Venture capital firms often form syndicates, for example, De Clercq and Dimov, 2008; Wright and Lockett, 2003. There is nothing to stop 'venture' capital firms combining to buy-out firms. Firms that want to acquire financial capital can themselves form strategic alliances, with or without committing to an equity position (Gopalakrishnan et al., 2008). In high technology contexts, and contrary to criticisms of private equity as being inevitably short-termist, the motivation for corporate venture capital may have more to do with learning and the development of capability than with securing an immediate return on investment (Keil et al., 2008).

Private equity may play very different roles depending on the firm's life cycle, for instance, there are profound differences between the nature and basis for security of start-up capital, versus turnaround capital (Filatotchev and Toms, 2006). The debt–leverage ratio can also vary enormously in

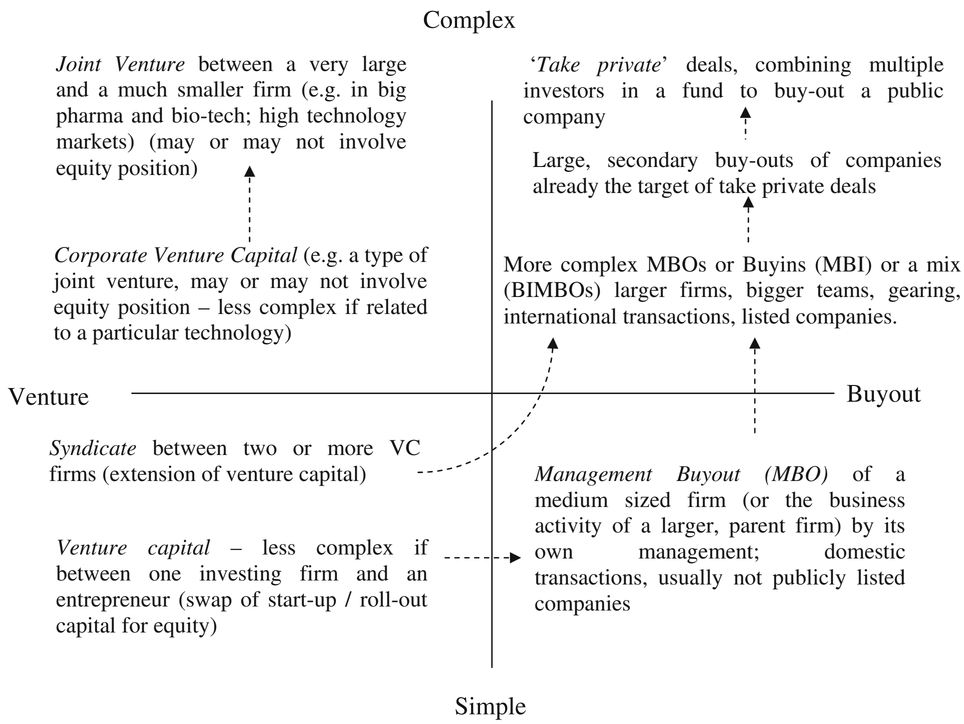

Figure 1. A typology of private equity forms.

private equity deals, from comparatively straightforward positions on equity to the sophisticated use of financial engineering and 'bootstrapped', geared or leveraged buyouts (LBOs). This has implications for the relationship between risk and investment. Another complicating factor is that the constituents of backing consortia vary considerably, including investments banks and individuals, as well as institutional investors such as pension funds, commercial and retail banks, insurance companies, public agencies and government bodies. Private equity firms may also be buying out other private equity firms. These secondary buy-outs represent a substantial proportion of the biggest recent buy-out deals, including (in the UK) the sale of Saga & AA and United Biscuits (Gilligan and Wright, 2008, p. 13). Finally, the structure of private equity firms varies in terms of transparency, governance arrangements, taxation and source of investment capital, some of which is a function of national legislation rather than strategic choice. As a whole then, this sector is a great deal more complex than the unitary label 'private equity' implies.

In this article, we are interested in analysing one form of buy-out private equity – the 'take private' business model (TPBM), sometimes also referred to as 'Public2Private' or 'P2P' buy-outs. This is a sufficiently distinctive variant to be considered in its own right. In terms of our typology, as a whole, buy-out activity is the most substantial form of private equity in both scale and impact. Froud and Williams (2007, p. 406) suggest that two-thirds of private equity capital globally is deployed in buy-out activity, with only 5% of private equity funds in Europe and the UK channelled into venture capital. According to the British Private Equity and Venture Capital Association,[2] in 2006 £29 billion was raised by UK private equity-backed funds focused on buy-outs. Of this, 85% (£25.1 billion) was targeted at large transactions, i.e. whose value exceeded £10 million. For 2007, although very large buy-outs (valued at £100 million or more) represented only 10% of total UK buy-outs by number, they made up almost 90% of buy-out activity by value (Gilligan and Wright, 2008, pp. 11–12). This is largely accounted for by the two biggest 'take private' deals in 2007: Alliance Boots and EMI valued at £11.1 and £3.2 billion, respectively. In terms of our two dimensions this is the 'buyout', 'complex' form.

'Take private' private equity and agency theory

The logic underpinning the TPBM is that private equity can resolve the fundamental agency problem in the firm: i.e. managers may not act in the best interests of shareholders (Jensen and Meckling, 1976). The agency problem can be traced to Bearle and Means who suggest that one consequence of the way modern corporations are governed, is the divergence of interests between managers and owners of firms, 'owners most emphatically will not be served by a profit-seeking controlling group [who] can serve their own pockets better by profiting at the expense of the company than by making profits for it' (Bearle and Means, 1932/2002, p. 114). This agency theory of the firm contrasts with both stewardship and stakeholder theories of the firm. Stewardship theories suggest managers' interests are not simply selfish and do not necessarily diverge from those of owners (Donaldson and Davis, 1991). Stakeholder theories involve considering more than simply the benefits to shareholders (Freeman, 1984).

Even though in our typology the TPBM is clearly the most complex constellation of actors, institutions and interests, the logic it relies on is very simple. It starts from the same initial assumptions as agency theory: a divide between principals (owners, shareholders) and their agents (managers), and a divergence of interests between these two parties. 'Taking private' resolves the agency problem by making the managers of a firm its owners, thus collapsing management and shareholder interests. The Walker report, which was commissioned as a self-avowedly 'independent review' (Walker, 2007, p. 3) of the industry in the UK, describes the principal advantage of private equity as 'direct alignment of interest achieved by private equity between ownership and management' (Walker, 2007, p. 21). However, this precludes considering the interests of other stakeholders affected by the TPBM.

Agency relationships exist under contract where one or more persons (principals) engage others (agents) to perform a service. In firms, this involves delegation of authority from the owners to the agent: managerial discretion (O'Sullivan, 2000). There is a long standing acceptance of managerial discretion in theories of the firm (Bearle and Means, 1932; Chandler, 1977; Marris, 1964; Means, 1930; Williamson, 1964, 1967). A consequence of such discretion is that it offers space for countervailing power in the interest of a wider set of stakeholders than a firm's owners (Galbraith, 1952, 1967). The logic of the TPBM is to reject any such deference to professional managers. This implies that the actions of management are understood in negative terms, as markers of waste and inefficiency that reduce returns to shareholders. Instead of merely accepting the presence of residual loss (the opportunity cost of managerial discretion), the TPBM seeks to limit or eliminate it. This involves limiting managerial discretion and also sidelining or ignoring non-shareholder interests. This is done by combining incentive schemes and performance monitoring regimes. Both of these incentivise managers to act as owners by linking remuneration to firm performance. In the UK, for example, in private equity acquisitions performance management is an investor concern in 79% of cases whilst executive stock options and incentives are used in 32% of cases to incentivise management to deliver on contractual conditions (Martin et al., 2007, pp. 84–88).

The potentially negative consequences of such new regimes are apparent and yet the Walker report unequivocally describes this limiting of managerial discretion as a benefit. Limiting discretion means, 'the direct alignment and short chain of communication between the general partner and the executive of the operating company, facilitating proactive and real-time convergence between shareholder interests and management' (2007, p. 10). It is contested whether the TPBM necessarily results in superior returns to investors, partly because the charge and fee metrics of private equity firms are so steep (Folkman et al., 2006; Froud and Williams, 2007; GMB/TSC, 2007; Kaplan and Schoar, 2005). Another consideration is that as investment in private equity has grown, given the sheer size of some private equity funds, there is an imperative for private equity fund managers to do something with the money. As Fraser-Sampson (2007, pp. 47–48) suggests, 'there is considerable scepticism… as to whether such [take private] deals can produce the sort of return to which investors have become accustomed in the past, but this is a development which has really been forced on the buyout sector by the inexorable rise in fund sizes and thus in target transaction size'. Therefore, in effect rather than the agency problem being resolved, the TPBM may mean it is simply displaced and reformulated. Whilst it may not be in investors' (principals) best interests to pursue take private deals, fund managers (their agents) face incentives to continue with them.

The need for a contrast to agency theory

Existing criticisms of the TPBM have focused on its distributional consequences and the effects of its limited transparency (Ireland, 2005). The Walker review itself is concerned with guidelines on transparency and disclosure. It never questions the agency logic underpinning the TPBM. Walker promotes an unequivocally favourable contrast between the (inferior, inefficient) public company and the (superior, efficient) private equity run firm. Listed companies suffer because of, 'the attenuation and potential impairment of the agency relationship between owner and manager as a result of the formal structures that have been imposed in listed companies as the means of assuring appropriate accountability to a large group of public shareholders' (Walker, 2007, p. 10). This follows from the assumptions of agency theory: private equity is not only a superior vehicle for realising efficiency gains, it also at the same stroke simplifies relations of accountability and otherwise potentially messy problems of corporate governance. If we accept these assumptions, whatever problems are currently occasioned by the TPBM, the question is neither how we should regulate private equity nor is it what other business models should be used. Instead, the only policy problem becomes how to improve how private equity operates, or how to convince and educate those who are still in doubt about the TPBM. This explains why the Walker report has such a narrow remit, solely to examine the 'adequacy of disclosure and transparency' (Walker, 2007, preface).

Yet, there are far broader potential problems with the TPBM. What, for instance, are the employment and pension rights of those whose employer is sold onto a private equity firm? What is the cost to the tax payer of tax breaks to partners of private equity firms? Are investors in private equity funds well served? More broadly, what is the effect of large scale transfers of corporations and the associated disruption of employment contracts on the social fabric? Once the tenets of agency theory are accepted, any debate about private equity is terminally constrained because all efficiency gains are understood in terms of return on investment. All costs to wider society are off balance sheet. Advocates of the TPBM are then able to claim it is the wider public who need educating. Transparency comes about because of a 'need for greater openness and explanation' (Walker, 2007, p. 35). Although it is worth noting that one thing private equity firms and individuals do not apparently need to be open about or explain is how much they earn: 'the compensation arrangements of senior executives of private equity firms are properly a matter of interest and concern for limited partners as owners but not a matter for accountability to other stakeholders or of wider public interest' (Walker, 2007, p. 14).

This focus exclusively on owners' interests neglects wider effects (Scholtens, 2006). The narrowness of the agency theory of the firm obscures important, broader questions about the nature of control and the actions of power (Delbridge and Ezzamel, 2005; Knights and McCabe, 1999; Starkey, 1995). A related consequence is that rather than understanding the terms private and public relationally, or as in some senses mutually constitutive, the logic supporting the TPBM leads to a remnant conception of the public. The public is that which is left behind, once the private has been accounted for. In the following section, we try to reclaim 'public' in discussion of the public good. This is not articulated in the extant literature on private equity, but it is the basis for our perspective on the TPBM that contrasts with agency theory.

The public good

Corporate governance

There are barriers facing any attempt to develop a contrasting perspective of private equity, which are in part a consequence of academic specialisation. Private equity has historically been seen as the province of finance or business strategy and accounts in business ethics are comparatively rare (Cumming and Johan, 2007). The space for critique is shrunken further because these fields are dominated by agency theory, and as a result rely on narrow constructions of terms such as 'corporate' and 'governance'. The firm is seen as an agent and aggregate of agents rather than as a different social form, or as embedded in a set of wider social relations. Hence, the notion of corporate is limited. Similarly, governance is understood in terms of contractual relations, rather than in systemic, cultural or ethical terms, or in terms of a wider impact on society. As a topic within mainstream research into business and management, interest in corporate governance has increased in the last decade owing to a series of high profile corporate scandals (Ashforth et al., 2008; Sundaramurthy and Lewis, 2003). These failures of practice have also been seen as the consequence of failures in theory and, in part, the overwhelming dominance of agency theory (Daily et al., 2003). Corporate governance is usually operationalised in terms of the actions of powerful individuals – typically understood as acting on behalf of shareholders or investors – for instance, the actions of the chief executive, chairman and board members (Chaterjee, 2008; Deakin and Konzelmann, 2003; Jones and Goldberg, 1982; Mayers et al., 1997).

In line with the logic supporting the TPBM, these treatments of governance rely on agency theory. This places exclusive emphasis on the actions of individuals, and on individual choices that are typically construed as the outcome of a rational choice process: self-interested, concerned with maximising utility and understandable in terms of a discrete series of steps (gather information, generate options, weigh these up, implement the one that maximises utility). This approach reflects what Ghoshal calls a 'gloomy' contractual view of the social world, a world dominated by relationships within a marketplace, rather than one that emphasises values, emotions or ethical principles (Ghoshal, 2005). The bias to agency theory has provoked debate as to the role of the academy in influencing the moral climate for organisational life (Donaldson, 2005). The effects of this agency bias have been far-reaching, for example, they have influenced assessments of accountability even in non-profit organisations and the public sector (Gaudin, 1998). When it comes to thinking about the TPBM and its effects on wider society, the agency bias severely constrains conceptualisation. It is contrary to well established ideas relating to the governance of the public sphere, where there has been, since the inception of democracy, a long standing interest in the public good.

The public good

The public good is an overarching criterion we invoke when considering whether something benefits wider society (Carcello, 2009; O'Brien, 2009; Patashnik, 2003; Shapiro and Rynes, 2005; Shergold, 1997; Tullock, 1984). This could be the result of the actions of a political administration, the collapse or birth of an institution, wide scale political or economic reform, changes in social attitudes, advances in technology, or in the case of the TPBM, the effects of one mode of capitalism. Sometimes these changes combine. For instance, technological advances affect the ownership of media companies which both shape and reflect social attitudes. Media companies have themselves been recent targets of take private deals, with two deals alone worth around $40 billion in 2006 (Buckley, 2008). We take public good to be synonymous with public interest, common good and cognate terms, but there are reasons for preferring that particular term: partly analytical and partly rhetorical.

In analytical terms, using 'good' makes it clear we are explicitly advocating a perspective on the TPBM that contrasts with agency theory. Notwithstanding that people may contest judgments about what is good (or bad) activity, we are opening up space to consider the effects of the TPBM as a question for business ethicists (Michalos, 2001). Using 'good' also takes us closer to an established account of the good for society that can be traced to the foundations of Western thought and our earliest writings on society and governance (Aristotle, 350BCE). It is also helpful rhetorically to juxtapose 'private' and 'public' since there is no space for public in the contemporary literature on private equity and the TPBM.

Starting from the contemporary literature and working back to accounts of the public good, the clearest path is *via* stakeholder theory (Barnett, 2007;

Berman et al., 1999; Freeman, 1984). In terms of the TPBM, what stakeholder theory would suggest is that restricting corporate governance to questions of accountability to investors ignores other stakeholders. Whilst the shareholders are one such stakeholder, this would also include employees, customers, suppliers, the local community and so on. In stakeholder theories, the principal/agent relationship is simply one of a series of relationships management has with other stakeholders. However, these are often still understood in terms of a bilateral relationship between management and other actors, 'Freeman's definition suggests a two-way relationship between a firm (that is, its management) and its stakeholders' (Berman et al., 1999, p. 491). Also, in most variants of stakeholder theory, ethical issues are understood in terms of their consequences, 'obligations that arise when an individual or corporate agent's decisions affect others' (Berman et al., 1999, pp. 492–493). These assumptions are also common to an agency view and one limitation of stakeholder theory is that subsequent research in the tradition of agency theory can assimilate stakeholder theory. Questions about ethics (originally at the heart of considerations of stakeholder interests) have become less central for some as the issue of how to address stakeholder concerns has been reduced to the (agency) problem of how to limit loss. Barnett (2007, p. 795) aligns 'the stakeholder theory argument' with the problem of how, 'firms can benefit financially from attending to the concerns of their stakeholders'.

The notion of stakeholder has been criticised as being both broad and vague (Orts and Strudler, 2009). Without discussing stakeholder theory in depth, we propose using public good to provide a contrasting perspective on the TPBM. However, a brief example relevant to the TPBM helps illustrate the potential benefit of a stakeholder perspective and also its connection to, and overlap with, the idea of public good.

The outcome of a TPBM deal may be that private equity investors sell on pension schemes in the firms they acquire to specialist providers who then manage the scheme on a contractual basis. In the event of shortfalls, public institutions or the government may be left to deal with the consequences. This clearly damages one stakeholder: 'the public', and so stakeholder theory has an advantage over an agency theory account of the TPBM, which only looks at investor interests. Unlike stakeholder theory, agency theory leads to a remnant construction of the public: that which is left behind once the market has had its say. To connect stakeholder theory with public good, we can simply say that diminishing or contributing to the 'public good' is another way of expressing that a key stakeholder: 'the public' (however, that is defined) has been harmed or benefits.

Operationalising public good

Partly because of its rhetorical benefit, we suggest that in this context, public good can be invoked and used without definitive description. This is because one basis for critique of TPBM involves scrutinising what is meant by 'public' in a particular context. The juxtaposition of public and private and the struggle to understand those terms can be a starting point for critique that is context sensitive. This is because the constituent terms 'public' and 'good' will have different senses and references in different settings. The danger of offering a once and for all definition of public (for instance, the third party in an industrial relations model of: labour, capital and the public) is that this could lead to an account in which the public remains relegated to the status of 'other', which is already the case in the TPBM. Rather than providing a once and for all definition, we suggest that exploration of the notion of 'public good' will itself lead to developing criticism. There is support for this approach in some of the relevant literature. For instance, Perry and Rainey (1988, p. 184) argue there are 'multiple, sometimes conflicting conceptions of the public interest'. Pickhardt (2005) in a wide ranging review of literature on the public interest suggests public good is served by a number of rather abstract ideals. These include: the benevolence of the governing elite (an idea traceable to Plato's *Republic*), adherence to the principle of justice, a system of government that combines efficiency with fairness, *Gemeinsinn* or a sense of community, and the altruistic behaviour of citizens both individually and as a collective. Such ideals could be part of a framework for a contrasting account to the agency view of the TPBM.

These could inform a series of research questions: does the prevalence of the TPBM compromise or distort the actions and priorities of government; does it compromise attempts to balance economic efficiency and fairness and industrial democracy; does it harm a sense of community; does it compromise altruism? Each could be examined in ways that allow the exploration of embedded phenomena, or cultural and institutional effects: at firm level or in a particular domain such as health or taxation, or across a particular sector. Exploring contextual factors would be consistent with a virtue ethics perspective, but some of these questions could also be operationalised using different normative frameworks: for instance, with reference to Rawls arguments on fairness or the relevance of Kantian principles to ideals of altruism.

The actions of private equity firms could all harm or benefit 'the public' depending on how that is constituted in a given context (Mok, 2002). Assessment of the public good could include a potentially vast portfolio of different indicators: income differentials, employment levels and the kinds of employment, distribution of tax burden, access to core services, levels of crime and violence, levels of organ donation, number of volunteer workers, pension provision, etc. Yet, any approach reliant on performance indicators faces some basic difficulties. Consideration of the public good invokes axiological (fundamental, ethical) questions and not simply technical or operational ones. Indeed, this forms part of the rationale for resisting a once and for all definition of the term public good.

Differences such as these are reflected in – for example – Nozick's (1974) and Rawls' (1971) divergent accounts of the good for society. These rival accounts underline that at their heart, questions about the public good remain contested. There is a further important challenge to using public good. It is difficult to discuss global concepts such as the public good in the contemporary era. This is not simply a question of fashion, but postmodernism, postcolonialism and other 'posts' have rightly left us uncomfortable with Discourses and Grand Narratives about good and evil, or with the intellectual architecture supporting modernism (Calás and Smircich, 1999; Frenkel and Shenhav, 2006; Jack and Westwood, 2006; Lyotard, 1984). It is partly for this reason that O'Brien, an advocate of its use, confesses that common good is a 'philosophical corpse' (O'Brien, 2009, p. 85). Below, we trace public good back to one notable philosophical corpse: Aristotle, but suggest that his account of virtue lends itself to more flexibly employed theory in contemporary management studies than other normative systems such as stakeholder theory.

As we have suggested, part of the value of using public good involves an examination of what the constituent terms mean in a given context. In that sense, we are interested in suggesting ways to develop narratives rather than proposing a Grand Narrative. Virtue ethics, though ancient, can be used in this way since it explicitly incorporates context sensitive exploration of what is the good. As Lewis (2009, p. 124) suggests there is a need to understand what is right action of a person (citizen) in terms of their politico-social setting, 'individual ethics and the characters of the citizens are strongly constitutive of social norms, which are reflected in the institutionalized enactment and enforcement of laws'. These laws have a direct, 'kinship' in contemporary business settings, in terms of the, 'written or unwritten code of conduct that helps guide a modern corporation' (Lewis, 2009, p. 131).

Virtue ethics also allows a description of the control of power that is not agency centric, but which examines how actions are situated and interpreted with reference to context over time. Rather than assuming a gap between agents and principals or construing their interests as separate, virtue ethics involves considering how the identity of institutions and individuals is mutually constitutive. In combination with the discussion of private equity and the public good above, a virtue ethics account of the public good offers space to develop a powerful, contrasting perspective to agency theory in terms of the TPBM.

Virtue

Proximate and ultimate ends

Aristotle argues in the *Nichomachean Ethics* (NE) (Aristotle, 1980) that many things can be deemed to be good. In addition, he argues that although these many good things are different, they are also connected to one another in some way (by virtue of being good) to a highest good (see Michalos, 2008). To develop a more rigorous understanding of *the* good, we need to appreciate how these good things are related (Kraut, 2002). In a famous passage, Aristotle describes how various activities have as their end or 'aim', different good things, '…the end of the medical art is health, that of shipbuilding a vessel, that of strategy victory…' (*Nichomachean Ethics*, I, 1). Because none of these things is the ultimate good thing, and they are related to a particular activity and context, they can each be understood as *proximate* ends. That is, each of these ends is in some way subordinate to other activities and ends. Health is not an *ultimate* end in itself, but enables other activities; victory may be necessary before there is peace, which is in turn required for political administrations to pursue other ends and so on (Morrell, 2009).

For Aristotle, all human activity can be said to aim at an ultimate good: a final end, or *telos*. Aristotle calls this ultimate good for humanity *eudaimonia* (see Graafland, 2009). Although *eudaimonia* is most usually translated as happiness, it is important to note that it is not a state of mind or mood. Instead, it is an ongoing activity. Another way to express this is that *eudaimonia* may be thought of as a verb, rather than as a noun: 'activity of soul exhibiting virtue [*arête*]' and sometimes also translated as 'flourishing'. *Eudaimonia* is the kind of activity which we pursue when we do those things which make us distinctively human.

The distinction between proximate and ultimate ends is relevant in considering the TPBM and the public good, and the limits of agency theory. Private equity firms may deliver impressive returns to shareholders and generate wealth for their partners, but these are proximate ends and disproportionately benefit some groups in society. Questions about wider effects are more distal, and in Aristotelian terms, ultimate questions of value do not relate to shareholder returns (the principal–agent relationship). Instead they concern the effect the TPBM has on the social fabric and the ultimate social end of *eudaimonia*. The TPBM may result in periods of fantastic proximate returns, but ultimately be found lacking: the MG Rover example with which we introduced the article is an extreme example of that. What Michalos (2008) refers to as the observable (proximate) returns of profit are obvious; the ultimate costs to the wider public are unobservable and unaccounted for from the confines of agency theory.

The investment horizon for most TPBM deals is very short, 3–5 years perhaps, and in a sense this comprises multiple life-stories: the life of the taken over firm, the lives of its employees and other stakeholders, the life of the private equity fund, the life of that mode of capitalism, the lives of various investors and so on. Rather than an agency perspective which would imply these were separate sequences of events, explained in terms of discrete transactions, a virtue perspective would see these as interwoven and mutually constitutive narratives, '[v]irtues enforce but also oppose each other, combine into new virtues, provide dilemmas because of their incommensurability and context dependency' (Graafland, 2009, p. 4); 'virtues themselves are individual, belonging to either persons or organizations. People have their own way of putting various virtues together and forging their own ethical characters' (Lau and Wong, 2009, p. 281).

A virtue ethics perspective would also consider the means and not simply the consequences when analysing actions associated with private equity. This contrasts with the agency view which focuses on returns, and also with Utilitarian perspectives that emphasise consequences. Some argue that at heart stakeholder theories consider how to achieve, 'a better or "good" society' (Russo and Perrini, 2010, p. 209). This is admittedly an expression of ultimate ends, and yet stakeholder theories also typically focus on outcomes (for different stakeholders) not means. In contrast, virtue ethics has at its heart the habits and character of key actors – who become virtuous through carrying out right actions, 'acting in a manner that communicates the importance of considering the means by which outcomes are achieved' (Neubert et al., 2009, p. 159); where, virtues are formed over time and by habit, 'the regular repetition of the right action' (Graafland, 2009, p. 3). From this perspective, someone is ethical if they have 'developed proper virtues of character from the practice of good actions' (Lewis, 2009, p. 126). Development of character over time is analogous to the construction of a personal narrative (Morrell, 2004).

We should acknowledge that TPBM advocates often argue that to 'take private' is occasionally the only route to corporate survival and that however painful, there are firms which would not have survived at all without such intervention. Hence, some TPBM advocates might argue they were virtuous in the sense they contribute more to the public good than the effects of their not intervening (which would have been detrimental to the public good). Whilst that may be true it is important to keep in mind that a virtue perspective does not reduce to consequentialism. Instead virtue is assessed retrospectively with reference to consideration of character and to the principles informing the total set of deals and transactions, as well as their consequences. This involves considering the proximate ends (shareholder returns, corporate survival), but also the ultimate ends (effect on the public good). It is a marked contrast to the agency view.

Institutions and individuals

Aristotle's ethics is interwoven with his account of politics, which he calls the 'science of good for man' (NE, I, 1). This links to a final, further benefit of considering the connection between virtue ethics, private equity and the public good. Virtue ethics, in Aristotle and in other writers since, shows how accounts of ethical behaviour can be applied not just to individuals, but to institutions, '…though it is worthwhile to attain the end merely for one man, it is finer… to attain it for a nation or for city states' (NE, I, 2). The implication of this is that we can consider the actions of individual partners in private equity firms, the actions of the firms themselves, the nature of the firms they take over and the effect of that industry as a whole. Another dimension of assessment would be to see whether the actions, aims and ambition of the key figures within private equity firms themselves exhibit virtue. Ultimately though, as well as understanding the outcomes in terms of shareholder dividends, a wider assessment of private equity would need to scrutinise whether as a mode of capital it contributes to the public good.

To offer an alternative frame of reference for understanding the TPBM, we could examine whether it is conducive to an environment in which citizens can flourish. More than other normative theories, virtue ethics considers the context for choice and the development of character. It also allows for the attribution of virtues and vices to social institutions, and to society as a whole, as well as to individuals. The emphasis on context and the development of character are important points of departure from agency theory. In another important contrast, Aristotle defines the good person and the good society in relational terms, rejecting the dualism implicit in transaction models of behaviour. MacIntyre describes this interrelationship as a consequence of the rise of the Athenian city-state. For the Athenian, 'the question of the relationship between being a good *citizen* and being a good *man* [sic] becomes central' (MacIntyre, 1984, p. 133 original emphasis). Hence, virtues are dependent on a set of wider relations, and mutually constituted with reference to a social structure (the city-state). The city-state has its own set of virtues which in turn may be questioned. Any changes within and to this complex, can be understood in terms of how they influence the public good. From this follows the concern in Aristotle's *Politics* with how different governance modes affect the citizenry.

This view of the social world is a great deal richer and more complex than a series of transactions between agents, partly because it explores what is public and what is private. Consideration of virtue draws attention to the individual (firm, industry) as a moral agent, and also to their historical and societal context. In empirical terms, virtue ethics can be thought of as a narrative ethic since it understands the implications of actions not in terms of their immediate consequences, but in light of an individual's environment and personal history. Interpretation of such actions also needs to take into account the long lasting, future implications of those actions on the individual's personal moral worth, or their character (Grint, 2007; Nussbaum, 2001; Morrell, 2004). It follows that narrative theory may be a route to develop accounts of the consequence of TPBM deals (cf. Barry and Elmes, 1997; Morrell, 2006, 2008). Such analysis need not be hostile to business or private equity or even the TPBM; it simply offers an alternative frame of reference for understanding the actions of firms and individuals.

This is an alternative perspective to a culture of short-termism and quick return on investment. It is also a clear point of contrast with the two other most influential normative theories in stakeholder theory: Kantianism and Utilitarianism. These suggest the basis for moral action should be the outcomes of a particular scenario (Utilitarianism), or the application of an unyielding universal principle (Kantianism). Neither allows us to take into account past nor future actions, which is a departure from the emphasis on narrative that offers exciting scope in virtue ethics. In departing from some of the assumptions of agency theory (commensuration, a utility calculus, self-interest, neglect of a wider context), and from the predominant normative theories in business ethics (Kantianism and utilitarianism) virtue ethics makes a welcome contribution to debate on private equity and the public good.

The emphasis on narrative also forms a welcome contrast to agency theory and accounts of exchange within markets, which suggest each decision should be approached on its own merits and solely in terms of net expected utility. Some economists have suggested that concerns over transaction costs can act as a mechanism to establish relational governance, so that firms do not default or cheat because of the risk to their reputation (Poppo and Zenger, 2002). Indeed, that logic is used in the Walker review to suggest voluntary reporting will be taken up widely: 'any company that is covered by these provisions that fails to conform at least to good practice will inevitably self-select for critical public scrutiny and risk of reputational damage' (Walker, 2007, p. 17). Whether or not this explanation is sufficient to encourage ostensibly virtuous behaviour, it is not virtuous if it collapses to a calculation about net expected utility. This kind of decision remains very different from the notion of actions being connected in a personal or institutional history and as part of the character of an individual or institution embedded in a wider social set of relations. One pursues *arête* (virtue) by following good habits and acting in accordance with the pursuit of the good.

Advocates of the TPBM suggest that where the governance of firms includes a concern for a wider set of stakeholders beyond investors and shareholders, this can soften competition and weaken profitability. Private equity advocates such as the British Venture Capital Association support this claim by presenting evidence that private equity-backed firms secure higher productivity and create jobs faster than public companies (BVCA, 2008) (see also Harris et al., 2005). This may well be the case in the short-term but if more and more firms are run exclusively in the interests of investors, businesses may be driven to pursue short-term profit at the expense of employment, innovation and research and development. The wider business system may become more short-termist if the efficiency bias within the TPBM becomes a best practice innovation for all. This could mean the erosion of social norms and other values which induce firms to accommodate the interests of wider stakeholders. The potential downside of widespread short-termism comes in the form of consolidation, redundancy and business failure. This opportunity cost is borne by the public whose interests are not factored into accounts of the benefits of the TPBM. A broader reframing of corporate governance is needed to account for the wider public interest. This involves re-examination of the terms 'corporate' and of 'governance', and a commitment to 'public' and 'good' that goes beyond the narrow confines of agency theory.

Conclusion

In *The Abolition of Man*, C. S. Lewis famously suggested, 'it might be going too far to say that the modern scientific movement was tainted from its birth; but I think it would be true to say that it was born in an unhealthy neighbourhood and at an inauspicious hour' (Lewis, 1943, chapter 3, paragraph 23). Paraphrasing Lewis, whether or not private equity was tainted at birth, the assumptions underpinning some versions of private equity do seem rather unhealthy at this inauspicious hour in the history of the global financial system. Lewis advocated that as well as being able to quantify things, we should pay attention to questions of ultimate value, and quality. Private equity buy-outs, particularly large scale ones, operate through processes of financial engineering that can strip organisations of their qualities, but preserve quantifiable elements that feature on the balance sheet and the profit and loss account. The results are close to, 'the rule of a few hundreds of men [sic] over billions upon billions of man' (Lewis, 1943, chapter 3, paragraph 5). We propose a contrasting perspective to the agency view of private equity that takes account of those whose interests are discounted, namely the public. This contributes to wider theorisation about this important business model and reflects the need for fundamental critique.

We need a more nuanced account of private equity than that which is put forward in the mainstream literature on finance. Current constructions rely on agency theory and pose the wrong kinds of questions about private equity. These prompt partial answers that overlook some of the challenges attendant with this sphere of capital. The key question is not, 'how is private equity more efficient than other more established business models?' nor is it, 'how does private equity improve the performance of under performing firms?' or 'how can we improve private equity?' Instead, it is 'what are the wider costs and benefits of the various forms of private equity?' This involves revisiting basic assumptions and operating principles and also analysis of the various forms of private equity. Crucially, we suggest it involves assessing whether the TPBM narrows the scope of stakeholder interests and potentially compromises the wider pubic good.

We contribute by offering theoretical contrasts (public good, virtue ethics) that open up space to explore the wider effects of the TPBM. Contrasts can lead to dialectical advances in theory, which improve our collective ability to understand the social world (Alvesson and Willmott, 1992; Hassard and Kelemen, 2002; Lado et al., 2006; Van Maanen, 1995). The consensus surrounding the agency theory account of private equity has clear advantages. Agreement on certain fundamentals promotes within-paradigm development and leads to the kind of gains we associate with intellectual schools (Cole, 1983; McKinley et al., 1999; Pfeffer, 1993). However, it can compromise theoretical innovation. Consensus can mean our gaze on the world is simply a reflection of some unquestioned, shared assumptions. Consensus can mean that counter-consensual viewpoints are unlikely to surface (Cannella and Paetzold, 1994). Restricting the scope of inquiry in this way has important consequences, because social phenomena are affected by the theories used to describe them (Ferraro et al., 2005, 2009; Ghoshal, 2005). The potentially deleterious effects of private equity on the wider public suggest counter-consensual theory is needed.

This article challenges the logic of agency theory and the exclusive concentration on shareholder interests which is a limitation in the literature on finance (Scholtens, 2006). Instead, we advance the case for considering the wider public interest (Buckley, 2008). In doing so, we introduced an influential normative system of ethics. Each of these aspects of our argument challenge narrow constructions of 'corporate governance' which lend legitimacy to the 'take private' variant of private equity. 'Governance' in the firm is more than consideration of a series of bipartisan contractual relations, and the effects of corporate actors extend beyond these sets of relations. Firms are embedded in wider networks of relations and part of a social fabric. The current formulations of private equity ignore such wider considerations because they rely on a remnant construction of the public – as that which is left behind once the market has had its say. This article proposes a contrasting framework which connects private equity and the public good.

Notes

[1] The sense in which we use public good should not be confused with the specific meaning this has in economics, where public goods are those goods that are non-rivalrous and non-excludable (Pickhardt, 2005; Samuelson, 1954). Public good is synonymous with common good (O'Brien, 2009; Morrell, 2009); Rawls defines it as, 'certain general conditions that are … equally to everyone's advantage' (in Carcello, 2009, p. 11).

[2] Confusingly this largely comprises members who pursue buyout private equity (Fraser-Sampson, 2007).

Acknowledgments

We would like to thank Professors Andrew Mullineux of Birmingham, Geoffrey Wood of Sheffield and Mike Wright of Nottingham for their comments on earlier drafts of this paper.

References

Alvesson, M. and H. Willmott: 1992, 'On the Idea of Emancipation in Management and Organization Studies', *Academy of Management Review* **17**(3), 432–464.

Aristotle: 1980, *The Nichomachean Ethics* (D. Ross, Trans.). Hazell Books, Aylesbury.

Ashforth, B. E., D. Gioia, S. L. Robinson and L. Trevino: 2008, 'Reviewing Organizational Corruption', *Academy of Management Review* **33**(3), 670–684.

Barnett, M. L.: 2007, 'Stakeholder Influence Capacity and the Variability of Financial Returns to Corporate Social Responsibility', *Academy of Management Review* **32**(3), 794–816.

Barney, J. B.: 2002, *Gaining and Sustaining Competitive Advantage* (Pearson Education, Upper Saddle River, NJ).

Barry, D. and M. Elmes: 1997, 'Strategy Retold: Toward a Narrative View of Strategic Discourse', *Academy of Management Review* **22**(2), 429–452.

Bearle, A. and G. Means: 1932, *The Modern Corporation and Private Property* (Macmillan, New York).

Benjamin, G. and J. Margulis: 2005, *Angel Capital: How to Raise Early-Stage Private Equity Financing* (Wiley, New York).

Berman, S. L., A. C. Wicks, S. Kotha and T. M. Jones: 1999, 'Does Stakeholder Orientation Matter? The Relationship Between Stakeholder Management Models and Firm Financial Performance', *Academy of Management Journal* **42**(5), 488–506.

Buckley, M.: 2008, 'Two Principles of Broadcast Media Ownership for a Democratic Society', *Journal of Business Ethics* **82**, 821–834.

BVCA: 2008, 'BVCA Private Equity and Venture Capital Performance Measurement Survey 2008', Available on http://admin.bvca.co.uk/library/documents/Performance_Measurement_Survey_2008.pdf. Accessed 9th March 2010.

Calás, M. B. and L. Smircich: 1999, 'Past Postmodernism? Reflections and Tentative Directions', *Academy of Management Review* **24**, 649–671.

Cannella, A. A. and R. L. Paetzold: 1994, 'Pfeffer's Barriers to the Advance of Organization Science: A Rejoinder', *Academy of Management Review* **19**(2), 331–341.

Carcello, J. V.: 2009, 'Governance and the Common Good', *Journal of Business Ethics* **89**(1), 11–18.

Chandler, A.: 1977, *The Visible Hand: The Managerial Revolution in American Business* (CUP, Cambridge).

Chaterjee, S.: 2008, 'Does Increased Equity Ownership Lead to More Strategically Involved Boards?', *Journal of Business Ethics* **87**, 267–277.

Clark, I.: 2007, 'Private Equity and HRM in the British Business System', *Human Resource Management Journal* **17**(3), 218–226.

Cole, S.: 1983, 'The Hierarchy of the Sciences?', *American Journal of Sociology* **89**(1), 111–139.

Cumming, D. and S. Johan: 2007, 'Socially Responsible Institutional Investment in Private Equity', *Journal of Business Ethics* **75**(4), 395–416.

Daily, C. M., D. R. Dalton and A. A. Cannella: 2003, 'Introduction to Special Topic Forum Corporate Governance: Decades of Dialogue and Data', *Academy of Management Review* **28**(3), 371–382.

De Clercq, D. and D. Dimov: 2008, 'Internal Knowledge Development and External Knowledge Access in Venture Capital Investment Performance', *Journal of Management Studies* **45**(3), 585–612.

Deakin, S. and S. J. Konzelmann: 2003, 'After Enron: An Age of Enlightenment?', *Organization* **10**(3), 583–587.

Delbridge, R. and M. Ezzamel: 2005, 'The Strength of Difference: Contemporary Conceptions of Control', *Organization* **12**(5), 603–618.

Donaldson, L.: 2005, 'For Positive Management Theories While Retaining Science: Reply to Ghoshal', *Academy of Management Learning and Education* **4**(1), 109–113.

Donaldson, I. and J. Davis: 1991, 'Stewardship or Agency Theory: CEO Governance and Shareholder Returns', *Australian Journal of Management* **16**(1), 49–64.

Ferraro, F., J. Pfeffer and R. I. Sutton: 2005, 'Economics Language & Assumptions: How Theories Can Become Self-Fulfilling', *Academy of Management Review* **30**(1), 8–24.

Ferraro, F., J. Pfeffer and R. I. Sutton: 2009, 'How and Why Theories Matter: A Comment on Felin and Foss (2009)', *Organization Science* **20**(3), 669–675.

Filatotchev, I. and S. Toms: 2006, 'Corporate Governance and Financial Constraints on Strategic Turnarounds', *Journal of Management Studies* **43**(3), 407–433.

Folkman, P., J. Froud, J. Sukhdev and K. Williams: 2006, 'Working for Themselves? Capital Market Intermediaries and Present Day Capitalism', Working Paper Series No. 25 (University of Manchester, Manchester).

Fraser-Sampson, G.: 2007, *Private Equity as an Asset Class* (Wiley, London).

Freeman, R. E.: 1984, *Strategic Management: A Stakeholder Approach* (Pitman, Boston, MA).

Frenkel, M. and Y. A. Shenhav: 2006, 'From Binarism Back to Hybridity: A Postcolonial Reading of Management and Organization Studies', *Organization Studies* **27**, 855–876.

Froud, J. and K. Williams: 2007, 'Private Equity and the Culture of Value Extraction', Working Papers Series No. 31 (Centre for Research on Socio-Cultural Change, University of Manchester).

Galbraith, J. K.: 1952, *American Capitalism: The Concept of Countervailing Power* (Penguin, London).

Galbraith, J. K.: 1967, *The New Industrial State* (Penguin, London).

Gaudin, J.: 1998, 'Modern Governance, Yesterday and Today: Some Clarifications to be Gained From French

Government Policies', *International Social Science Journal* **50**(1), 47–56.

Ghoshal, S.: 2005, 'Bad Management Theories are Destroying Good Management Practices', *Academy of Management Learning and Education* **4**(1), 75–91.

Gilligan, J. and M. Wright: 2008, *Private Equity DeMystified: An Exploratory Guide* (Corporate Finance Faculty, ICAEW, London).

GMB/TSC: 2007, *Report and Evidence Submitted to the Treasury Select Committee on Private Equity as Part of the GMB Union Submission* (GMB, London).

Gopalakrishnan, S., J. Scillitoe and M. D. Santoro: 2008, 'Tapping Deep Pockets: The Role of Resources and Social Capital on Financial Capital Acquisition by Biotechnology Firms in Biotechpharma Alliances', *Journal of Management Studies* **45**(8), 1354–1376.

Graafland, J.: 2009, 'Do Markets Crowd Out Virtues? An Aristotelian Framework', *Journal of Business Ethics* **91**(1), 1–19.

Grint, K.: 2007, 'Learning to Lead: Can Aristotle Help Us Find the Road to Wisdom?', *Leadership* **3**(2), 231–246.

Harris, R., D. Siegel and M. Wright: 2005, 'Assessing the Impact of Management Buyouts on Economic Efficiency: Plant-Level Evidence from the United Kingdom', *Review of Economic and Statistics* **87**, 148–153.

Hassard, J. and M. Kelemen: 2002, 'Production and Consumption in Organizational Knowledge: The Case of the Paradigms Debate', *Organization* **9**(2), 331–355.

Ireland, P.: 2005, 'Shareholder Primacy and the Distribution of Wealth', *Modern Law Review* **68**(1), 49–81.

Jack, G. and R. Westwood: 2006, 'Postcolonialism and the Politics of Qualitative Research in International Business', *Management International Review* **46**, 481–501.

Jensen, M. and W. Meckling: 1976, 'Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure', *Journal of Financial Economics* **3**, 305–360.

Jones, T. M. and L. D. Goldberg: 1982, 'Governing the Large Corporation: More Arguments for Public Directors', *Academy of Management Review* **7**, 603–611.

Kaplan, S. and A. Schoar: 2005, 'Private Equity Performance Returns, Persistence and Capital Flows', *Journal of Finance* **60**(4), 1791–1824.

Keil, T., E. Autio and G. George: 2008, 'Corporate Venture Capital, Disembodied Experimentation and Capability Development', *Journal of Management Studies* **45**(8), 1475–1505.

Knights, D. and D. McCabe: 1999, 'Are There No Limits to Authority: TQM and Organizational Power', *Organization Studies* **20**, 197–224.

Kraut, R.: 2002, *Aristotle: Political Philosophy* (Oxford University Press, Oxford).

Lado, A. A., N. G. Boyd, P. Wright and M. Kroll: 2006, 'Paradox and Theorizing Within the Resource-Based View', *Academy of Management Review* **31**(1), 115–131.

Lau, V. P. and Y. Y. Wong: 2009, 'Direct and Multiplicative Effects of Ethical Dispositions and Ethical Climates on Personal Justice Norms: A Virtue Ethics Perspective', *Journal of Business Ethics* **90**(2), 279–294.

Lewis, C. S.: 1943, 'The Abolition of Man', http://www.columbia.edu/cu/augustine/arch/lewis/abolition1.htm. Accessed 15 July 2009.

Lewis, J. D.: 2009, 'Solon of Athens and the Ethics of Good Business', *Journal of Business Ethics* **89**(1), 123–138.

Lyotard, J.-F.: 1984, *The Postmodern Condition: A Report on Knowledge* (Manchester University Press, Manchester).

MacIntyre, A.: 1984, *After Virtue* (Duckworth 2e, London).

Marris, R.: 1964, *The Economic Theory of Managerial Capitalism* (Macmillan, London).

Martin, R., P. Casson and T. Nisar: 2007, *Investor Engagement-Investors and Management Practice Under Shareholder Value* (Oxford University Press, Oxford).

Mayers, D., A. Shivdasani and C. W. Smith: 1997, 'Board Composition in the Life Insurance Industry', *Journal of Business* **70**(1), 33–63.

McKinley, W., W. A. Mone and G. Moon: 1999, 'Determinants and Development of Schools in Organization Theory', *Academy of Management Review* **24**(4), 634–648.

Means, G.: 1930, 'The Diffusion of Stock Ownership in the United States', *Quarterly Journal of Economics* **44**(4), 561–600.

Michalos, A. C.: 2001, 'Ethics Counselors as a New Priesthood', *Journal of Business Ethics* **29**, 3–17.

Michalos, A. C.: 2008, 'Ancient Observations on Business Ethics: Middle East Meets West', *Journal of Business Ethics* **79**, 9–19.

Mok, K.: 2002, 'Policy of Decentralization and Changing Governance of Higher Education in Post-Mao China', *Public Administration and Development* **22**(3), 261–273.

Morrell, K.: 2004, 'Decision Making and Business Ethics: The Implications of Using Image Theory in Preference to Rational Choice', *Journal of Business Ethics* **50**, 239–252.

Morrell, K.: 2006, 'Policy as Narrative: New Labour's Reform of the National Health Service', *Public Administration* **84**(2), 367–385.

Morrell, K.: 2008, 'The Narrative of 'Evidence Based' Management: A Polemic', *Journal of Management Studies* **45**(3), 613–635.

Morrell, K.: 2009, 'Governance and the Public Good', *Public Administration* **87**(3), 538–556.

Neubert, M. J., D. S. Carlson, K. M. Kacmar, J. A. Roberts and L. B. Chonko: 2009, 'The Virtuous Influence of Ethical Leadership Behavior: Evidence from the Field', *Journal of Business Ethics* **90**(1), 157–170.

Nozick, R.: 1974, *Anarchy, State, and Utopia* (Basic Books, New York).

Nussbaum, M. C.: 2001, *The Fragility of Goodness* (Cambridge University Press, Cambridge).

O'Brien, T. W.: 2009, 'Reconsidering the Common Good in a Business Context', *Journal of Business Ethics* **85**(1), 25–37.

O'Sullivan, M.: 2000, *Contests for Corporate Control: Corporate Governance and Economic Performance in the United States and Germany* (Oxford University Press, Oxford).

Orts, E. W. and A. Strudler: 2009, 'Putting a Stake in Stakeholder Theory', *Journal of Business Ethics* **88**(4), 605–615.

Patashnik, E.: 2003, 'After the Public Interest Prevails: The Political Sustainability of Policy Reform', *Governance* **16**(2), 203–234.

Perry, J. L. and H. G. Rainey: 1988, 'The Public–Private Distinction in Organization Theory: A Critique and Research Strategy', *Academy of Management Review* **13**(2), 182–201.

Pfeffer, J.: 1993, 'Barriers to the Advance of Organizational Science: Paradigm Development as a Dependent Variable', *Academy of Management Review* **18**(4), 599–620.

Pickhardt, M.: 2005, 'Some Remarks on Self-Interest, the Historical Schools and the Evolution of the Theory of Public Goods', *Journal of Economic Studies* **32**(3), 275–293.

Poppo, L. and T. Zenger: 2002, 'Do Formal Contracts and Relational Governance Function as Substitutes or Complements?', *Strategic Management Journal* **23**(8), 707–725.

Rawls, J.: 1971, *A Theory of Justice* (Harvard University Press, Cambridge).

Russo, A. and F. Perrini: 2010, 'Investigating Stakeholder Theory and Social Capital: CSR in Large Firms and SMEs', *Journal of Business Ethics* **91**(2), 207–221.

Samuelson, P. A.: 1954, 'The Pure Theory of Public Expenditure', *Review of Economics and Statistics* **36**, 387–389.

Scholtens, B.: 2006, 'Finance as a Driver of Corporate Social Responsibility', *Journal of Business Ethics* **68**(1), 19–33.

Shapiro, D. L. and S. L. Rynes: 2005, 'The Role of Management Scholarship in the Public Sector', *Academy of Management Journal* **48**(6), 989–997.

Shergold, P.: 1997, 'The Colour Purple: Perceptions of Accountability Across the Tasman', *Public Administration and Development* **17**(3), 293–306.

Starkey, K.: 1995, 'Opening up Corporate Governance', *Human Relations* **48**(8), 837–844.

Sundaramurthy, C. and M. Lewis: 2003, 'Control and Collaboration: Paradoxes of Governance', *Academy of Management Review* **28**(3), 397–415.

Tullock, G.: 1984, 'A (Partial) Rehabilitation of the Public Interest Theory', *Public Choice* **42**, 89–99.

Van Maanen, J.: 1995, 'Style as Theory', *Organization Science* **6**(1), 133–143.

Walker, D.: 2007, 'Guidelines for Disclosure and Transparency in Private Equity', http://walkerworkinggroup.com/sites/10051/files/wwg_report_final.pdf. Accessed 19 July 2008.

Webb, T., A. Stratton and I. Griffiths: 2009, 'MG Rover: How the Phoenix Four Hit the Jackpot', 11 September, www.guardian.co.uk. Accessed 27 September 2009.

Williamson, O.: 1964, *The Economics of Discretionary Behaviour: Managerial Objectives in a Theory of the Firm* (Prentice Hall, New Jersey).

Williamson, O.: 1967, 'Hierarchical Control and Optimum Firm Size', *Journal of Political Economy* **75**, 123–138.

Wright, M. and A. Lockett: 2003, 'The Structure and Management of Alliances: Syndication in the Venture Capital Industry', *Journal of Management Studies* **40**, 2073–2102.

Wright, M. and K. Robbie: 1998, 'Venture Capital and Private Equity: A Review and Synthesis', *Journal of Business and Accounting* **25**(5/6), 521–570.

Zald, M. N.: 1996, 'More Fragmentation? Unfinished Business in Linking the Social Sciences and the Humanities', *Administrative Science Quarterly* **41**(2), 251–261.

Birmingham Business School,
University of Birmingham,
Birmingham, U.K.
E-mail: k.morrell@bham.ac.uk