Conflicting Visions of the Firm: Cultural Influences in the Economy

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For some 60 years scholars and practitioners have sought to make sense out of the apparent dilemma between the obligations of the corporation and its management to shareholders, and the corporation's responsibility to its stakeholders — those non-shareholders who are significantly impacted by corporate decisions. The nature of the obligations is critically important since the explanation defines the purpose or end or nature of corporate life which millions of people spend a substantial part of their lives living.

Past commentary and analysis have focused on how management and government regulation should deal with the perceived tension between the shareholders' expectation for maximization of wealth on their investment, and stakeholders' interest in a fair consideration of the corporation's impact on their lives. There is a considerable range of opinion represented in the shareholder/stakeholder conversation. Some believe that the corporation and its management are bound by a fiduciary duty to maximize wealth to shareholders, while others would give the stakeholders a direct voice in the governance of the corporation.1 Notwithstanding the diversity of opinion, we believe that an important premise underlies all shareholder/stakeholder analysis: the manner in which the corporation responds to the claims of stakeholders is (ought to be) conditioned by the way in which the corporation understands itself and its relationship to its shareholders. By response we mean the act of management within the discretion of management. We are not here essentially concerned with the legal constraints on the operation of the corporation, but rather with that realm of action open to the judgment of those persons making decisions for the corporation. That power is spread to varying degrees among the directors, officers and shareholders. How these persons understand their relationship with each other will determine how the corporation will act toward those persons whom it impacts.

It is important to note that there is nothing in the law that indicates wealth maximization as the purpose of the corporation. The state leaves the corporation to define the purpose of its existence. The purpose of the firm comes from the property relationship between shareholder and firm that is embedded in the larger culture that has at its core an understanding of the human person. In corporate law, management's fiduciary is not to any one constituency but to the company itself. The law establishes certain governance structures to protect capital holders by the jurisdiction it sets of who selects the directors and who will govern the corporation. It also protects workers and community interests through various regulations. The law does not, however, establish a social philosophy of what an organization is for. It leaves the question of organizational purpose and identity to the organization itself and the larger culture in which corporations are embedded. The law provides conditions by which shareholders, employees, customers, suppliers and communities can better collaborate with each other toward society's welfare, but because of its limited nature the state cannot define the essence of the property relationship between shareholder and corporation and the corporation's self-understanding. That there is an agency relationship to shareholders is clear, but to hold that it is defined in terms of wealth maximization is to inject a financial philosophy that is problematic from a Catholic perspective (as well as from most other religious and philosophical perspectives).2

We believe that the purpose of the corporation is intrinsically connected to the property relationship between the shareholder and the corporation; however, as long as the corporation is seen essentially as a vehicle for the wealth maximization of shareholders, the corporation's understanding of itself and in turn its relationship with shareholders and to stakeholders will be distorted. Once the corporation is perceived as an engine for maximum return for shareholders, consideration of the legitimate interests of stakeholders is reduced to the strategy of a chess board. Interests are checked and balanced in order to channel the single-minded pecuniary interests of the corporation into directions that will be least destructive to outside interests while still maintaining the corporation's material benefits for society.

Faced with parochial wealth maximization as the animating spirit of the corporation, the larger community will, of course, respond to protect its interests with laws and regulations. The usual alternative to the financial shareholder model is a stakeholder model that advocates a multi-fiduciary approach placing stakeholders on the level of "quasi-shareholders." This approach challenges the priority of shareholders in the maximization of their economic interests by interjecting an egalitarian criterion where all stakeholders' interests are maximized. While certainly more appealing than the shareholder model, the stakeholder model fails to deal adequately with the property relationship between shareholder and corporation. No matter the particular weave of the regulatory web, the heart of the problem remains as long as the essential act of the corporation is understood as an act for profit.

We define the heart of the problem in the following manner: Can an organization be understood in a way that makes the corporate act essentially an act for a good that can be shared in common — a corporate act that in its essence is an act for the common good that serves both the corporation and the community at large? This is not an easy question. The contours of shareholder/stakeholder analysis to date are compelling testimony to the multifaceted difficulty of this issue. Yet, critical to this question is the property relationship between shareholders and the corporation. However, the analysis of the property relation, we believe, has suffered from a deficiency of "embeddedness." The nature of the corporation cannot be fully understood outside its embeddedness in culture; and culture cannot be fully understood outside its attempt to explore the anthropological question "Who is the good person?" Any attempt to address the question should begin with the understanding that its difficulty is deeply rooted in the modern understanding of the person and society.

The Embeddedness of the Firm Within Culture

Our argument hinges on the belief that corporations are embedded and take their cue from the culture in which they find themselves. How the term "embeddedness" functions tells us three things about the economy and corporations that are the primary agents of the economy.3

1) Subordinate to the Culture: The economy is embedded in culture not culture in the economy. The economy is subordinate to the proper ends or purposes of the culture which form the property relationship between shareholder and corporation. All corporations and economies are moral corporations as informed by the culture in which they are embedded.4

2) Instrumental to the Person: As subordinate, the economy is instrumental to the good of the larger culture that informs our understanding of the human person. All economies aim at some good that is at root anthropological.

3) Constraints: The culture determines the constraints of economic activity. As instrumental and subordinate, economies are limited by the culture which serves to constrain economic activity to the extent that the culture determines.

Examining the nature and purpose of corporations in the context of its embedded culture can further the debate of corporate purpose by better exposing first principles. It also brings to the fore a Judeo-Christian culture that has had such a significant influence in the U.S., and is too often submerged in the debate concerning corporate purpose. A brief history of this embeddedness phenomenon sets the stage for a clear engagement of corporate purpose within the Christian social tradition.

The ancient western economy was "embedded" in a community dominated by the religious, ethical, familial and political vision of the person. The economy as such was subordinated to, and did not exist separately from, the other factors of human life. The economy emerged from the traditional community. In ancient Greek society, the freeman head of the household was understood to carry the fullness of the person. All others, wife, children, servants and slaves, derived their personhood from their relationship with him. They were his instruments, to varying degrees, to the good life, understood in its highest sense as the development, in leisure, of the intellect and the skills of good government of the city. The good of the person was not identified with economic gain. Rather, economic gain was understood to be in the service of and instrumental to the development of the good person. However, this was a vision of the human telos conditioned and marred by a deficient view of human excellence.

In the medieval period, societies were concerned with the constant threat of economies becoming disembedded from the cultures they were intended to serve. A major threat was the delinking of wealth acquisition from the common good that would lead to an unlimited and unconstrained economy. Institutions, religious practices and moral standards contained economic activity regulated through feast days5 (over 100 feasts days were not uncommon), just wages and prices, usury restrictions, and guild standards. This in part explains the wide discrepancy of work hours per year among the Middle Ages (1600), Industrial Revolution (3500) and today (1900).6 These trends continued through the period of mercantilism. (This is not to say that these institutions and practices were developed only to restrain the economy, but if the culture is unable to restrain economic activity, religious and social practices and institutions become difficult to develop.)

However, according to Karl Polanyi this embeddedness function changes radically with the emergence of the market economy. What occurs, according to Polanyi, is the alienation of the economic life and more specifically the corporate act from the larger community. This is emblematic of the understanding of the person that is central to the rise of the autonomous market economy.

The economy was unhinged from the larger society in what Polanyi called “the Enlightenment’s ingenuous view of pristine man contracting for his freedoms and bartering his goods in bush and jungle to form his society and economy.” The person was understood as a “utilitarian atom” whose defining task is the maximization of life’s material needs. On this account, all aspects of the person other than material maximization fade into the background and the market becomes the essential stage for the human drama. All elements necessary for industry become subject to the market including labor, the very lives of society’s members, and land, society’s natural setting. In Polanyi’s view, the “intellectual heritage of man as an entity with an innate propensity to truck, barter and exchange” disembedded the economy from the moral framework of society and has thwarted any attempt to reestablish the primacy of society over economy. (It may be more properly stated that the link between property and society is reconceived as a mechanical rather than a moral link understood through the invisible hand.)

Within this historical context the rise of the modern corporation and its role as representative of the market morality and economy can be seen. Prior to about 1800, it was difficult to incorporate. In order to obtain the status of a legal but fictitious person, the state, in the form of the legislature or the monarch, had to specifically and individually approve the creation of the entity. Corporations had to be justified as instruments of larger political and social policies, e.g. Hudson Bay Company and East India Company. This is an example of an economy still at least partially embedded in the premodern political and social order.7

However, after about 1800, and continuing still today, one has the freedom to incorporate at will for virtually any purpose. We each can create a “legal person” that can operate in society with rights (including some constitutional rights) and duties. The corporation is about money — capitalization, profit, loss, balance sheets etc. that allow us to be pure economic actors in the market place. The corporation is therefore the most explicit form in which we can act in a society that has become a system indifferent to our noneconomic attributes. Through the corporation money can act in our stead in society.

Virtually every aspect of the corporation and particularly the public corporation appears to support this abstraction of non-economic attributes from the shareholder:

(1) the corporation is a “fictitious person,”
(2) stock ownership is so widely held that most corporations are beyond the effective control of the shareholders, although this is changing with the increasing influence of institutional shareholders,
(3) stock ownership may even be on some “removed” basis, e.g. pension funds and mutual funds,[8]
(4) the financial markets have created “abstractions” of stocks themselves, e.g. warrants, options, and other derivatives,[9]
(5) share certificates are normally held in “street name,”
(6) financial markets make one’s investment in stock liquid, easily disposable and subject to speculation and manipulation.[10]

Given these factors it is easy to see why the standard of wealth maximization is the criterion used to judge the shareholder-corporation relationship and why it is extremely difficult to make a credible argument for any communitarian view of the public corporation based on the shareholder-corporation relationship.

In light of these abstractions, the financial shareholder model explains the nature of the organization as the creation of those organizational conditions that maximize shareholder wealth. The question that immediately arises from this view of the corporation (which is founded on a view of property and the human person) is: “If shareholders are wealth maximizers, are managers and employees also wealth maximizers?” That is, if everyone is a “utility” or wealth maximizer, there is good reason to believe that managers and employees will not act on behalf of shareholder maximization. Advocates of the financial shareholder model realize with the help of their economist relatives that in the economic realm as they understand it, all or at least most actors are motivated by utility maximization; and people need to assume the rule not the exception. Consequently, organizations must create conditions that mitigate occasions for opportunism by non-shareholders that would thwart shareholder wealth maximization. Because shareholders do not have control over the organization, hierarchical control mechanisms through fiat, monitoring, and incentives are created to increase the cost of opportunism on behalf of management and other stakeholders.[11]

Such tactics of downsizing corporations, offshore production, declining wages for non-skilled work, and executive stock incentives are a few of the ways the financial shareholder model manages wealth maximization.

We need to question here whether the market economy has really delinked or disembedded itself from the culture or whether the disembeddedness of economic activity and property actually arises from the culture itself. James William Booth argues that rather than the advent of a disembedded economy, there has been a "moral redrawing" of the relationship between society and the economy. By focusing narrowly on the private, individual dimensions of property, liberal culture, particularly expressed in the U.S. and the UK, has created conditions for financial markets and corporations to make decisions that maximize the property of shareholders with little thought to the common good. Booth explains that the transition from pre-modern to a modern culture yields

a new form of moral embeddedness for the economy. The attributes claimed for it are familiar: an economy whose actors are considered equals and a system indifferent to their noneconomic attributes, a contractarian, voluntaristic institutional context for exchanges; and the view that the public authority should not decide among preferences — that one is entitled to live one's life "from the inside," selecting and ordering one's preferences according to the good as one understands it and seeking to engage the voluntary cooperation of others in one's pursuit of them.[12]

Whether one accepts Polanyi's notion of a disembedded economy or Booth's notion of the economy embedded in a contractarian moral landscape, the pivotal point is anthropological. One's understanding of the person determines what is relevant in the economy's relationship to society.

For Booth, liberal culture offers an understanding of the person that is stripped of any natural ties to community, tradition and culture. The "Enlightenment's ingenious view" of the person as a contracting, utilitarian atom dictates that material gain in and through the market can be the only relevant measure of the person in the market. On this account, any attempt to subordinate the market to other non-liberal notions of community, tradition and culture and replace material gain as the telos of the economy with something other than a liberal individualism, implies nothing short of a revolution at the deepest levels of our self-understanding. This pursuit in the market is not disembedded from the culture, but arises precisely out of a liberal culture that sees personal choice and preference as supreme. Within the financial view of the corporation, a larger view of human development of any stakeholder is always instrumental to the economic development of shareholders. And because the financial theory of the firm is embedded in a liberal culture that fails to constrain economic activity, wealth acquisition and consumption take an increasing amount of time and identity.[13]

Catholic Social Thought: Reembedding Corporate Life in a Judeo-Christian Culture

John Danley argues that liberalism, in both its classical (shareholder) and revised (stakeholder) forms, has dominated the discussion of the corporation's role in society. Yet, he inadvertently raises the question as well as the need for other traditions to enter the discussion over a corporation's role in society, particularly those traditions operative in the particular culture. Danley does not see much hope in religious traditions mediating a meaningful understanding of corporations, although he himself admits that liberalism has not done a good job.

While liberal individualism plays a critical role in the formation of U.S. and British culture, it is not the only culture. Robert Bellah et al. point out three strands of culture in the U.S.: individualism, republicanism and biblical. One of the most systematic expressions of this biblical tradition is found through the Catholic social tradition.

Any view of work and organizational life restricted to economic meaning or pursuit of self-interest narrowly understood implicitly denies the biblical and incarnational reality articulated in Catholic theology. That is, Christians who view their work purely in economic terms represent a conflict of identity. Liturgy, as the core act of Christian culture, tells us that creation is good; otherwise calling worship a celebration would be an absurdity (see Pieper). Michael Joncas explains that

[t]he liturgy does not so much remove the elements of bread and wine from the "profane" sphere of daily life to render them "sacred", as presents them before the worshipping community so that all may recognize the prior sacredness of created reality, permeated by the Spirit of God. ... The liturgy blesses and celebrates human creativity in the use of material creation, a creativity that does not exploit or destroy the created order but renders it useful for human purposes while adorning it with further beauty.[14]

The point here is significant. The liturgy shows us that God is not divorced from creation but pervades every part of it. This sacramental and incarnational reality explains that our work is not necessarily "to carry God into our situations."[15] Rather, God is already there. A Catholic theology of work is not an imposition on the workplace but rather a revelation of the deeper meanings of the workplace.

In his encyclical Laborem Excercens (LE), John Paul II explains that collaboration with God's creation is to grasp that creation is not a one time event (LE, 13.1, 25). Creation is an ongoing phenomenon, sustained through God's power and love, in cooperation with people. He explains that people continue to face a choice of whether or not to develop and perfect creation in collaboration with God by participating in God's continual creative activity (LE 25.1). All workers provide further form and order to what has been given in nature's raw materials. The critical choice that always faces people at work is whether the form and order enhances God's creative order or detracts from it. People can and do participate in God's creative activity precisely by carrying out God's command to subdue and have dominion, not according to their own selfish desires, but according to the designs of God's creative order. In this way, workers, who are made in the image of God, reflect "the very action of the creator" (LE, 4.1).

John Paul II sees the relationship of the workers' activity with God's creative activity as extremely personal. There is an intimate calling and invitation to participate and carry on God's work every day in the organization. He points out that the talent and progress arising from humanity's work is not in competition or in opposition with God's creation; rather, "'the triumphs of the human race are a sign of God's greatness and the flowering of his own mysterious design.'"[16] For John Paul II, Christians are called to build up the kingdom through their work as collaborators within God's creative and redemptive order. Work as collaboration entails a personal vocation to build the world not only in a technological and scientific way, but primarily in a moral and spiritual way — as partners in establishing God's kingdom of peace and justice. As a collaborator, the worker has been given a religious reason to participate in furthering the perfection of creation. This elevation fulfilled through Christ's grace makes work not only good but holy (LE, 25.5).

How does one engage this theological understanding of work with the financial theory of the firm described above? We see two avenues for this engagement to take place based on two fundamental questions that should be asked of all work: 1) "What kind of person should I as a manager, or owner, or employee strive to become (individual character)?" 2) "What kind of organizational community should I as a manager, or owner, or employee strive to build and maintain (organizational character)?"[17] The first question examines "the subjective nature of work," and the second question examines the corporate purpose and its relationship to property.

1) The nature of work: Subjective and Objective Dimensions. Presupposed within the financial theory of the firm is the Aristotelian distinction between action and production and moral reason and technical reason. Proponents of this theory claim "that all they are doing" is describing what is the most efficient techniques of maximizing capital investment. The corporate act is defined as the art of acquiring wealth, that is, the most efficient technique to maximize available capital. The corporation as the arena of production is defined as technical reason. Finance, as a discipline, it is argued, makes no claims on moral reason. Finance is a descriptive science, not a moral science, describing what is not what should be, describing reality not morality. Technical reason examines the reality of the situation, such as the behavior of capital markets, and then plots out a course of activity to maximize shareholder property within those capital markets. By finding the techniques that are awarded in the market and avoiding those behaviors which are punished, finance masters technical reason within its capital markets.

The focus for finance as well as other business disciplines such as marketing, operations and human resources, is on the object. As a series of techniques, finance prides itself as a discipline on explaining and predicting capital markets, what is out there, the object. The assumption here is that activity of finance and business in general is a transitive activity, that is, a productive activity (making) that changes objects.

But work is not simply an activity that lands out in the object. As a self-reflexive activity, work lands right back into the person. This subjective phenomena of work tells us that work cannot be simply restricted to techniques. Every person must ask "What is my work doing to me?" The very nature of work, as a self-transforming activity, is intrinsically a moral and religious activity. Precisely because it is other-transforming, it is self-transforming. As James Murphy puts it, "action is immanent (that is, perfects the self) only because it is transitive (perfects the world); self and world are jointly articulated in the act of labor."[18] In light of the subjective and theological account of work, no one who works can maintain on the subjective level some form of a value-free, purely technical view of her own work.

For many entrepreneurs, this subjective dimension of work is strongly felt as they build not only products but organizational communities. Berle and Means in their classic work The Modern Corporation and Private Property, described this subjective dimension in the following manner: “Physical property capable of being shaped by its owner could bring to him direct satisfaction apart from the income it yielded in more concrete form. It represented an extension of his own personality” (The Modern Corporation and Private Property, 64-65). However, within large public corporations owners are seemingly unable to shape the corporation in any concrete way, often reducing their ownership to economic meaning, and the subjective dimension of ownership is apparently submerged.

2) The Common Good: A Complex Hierarchy of Purpose. Because of the subjective dimension of work, how corporate purpose is understood is of critical importance. A collective of employees involves not only individual employees, each working out the subjectivity of their own labor, but also the subjectivity of the organization itself, which some would call corporate culture. What informs the subjectivity of the organization is its collective purpose manifested both in deed and word.

Within the Catholic social tradition, organizational purpose is defined as the common good, that is, the creation of those organizational conditions ordered toward human development. Embedded in this definition is not a unidimensional goal, but a complex hierarchy of goods ordered not toward some abstract collectivity, but to the subjectivity of the human person within an organizational context. Our definition begs the anthropological question of what constitutes human development. It must be first noted that our understanding of the person is far more complex than the “economic man” embedded in the financial theory of the firm, the person whose work is motivated by the desire for wealth maximization. This is not to deny that people act in wealth maximizing ways; rather we want to show that inherent in the common good purpose of organizational life is a view of the person that appeals to human desires that already exist, although undeveloped. In other words, what we want to show is the deficiency of the financial theory of the firm and its corresponding view of the person, and the more complete vision of the common good and its corresponding view of the person.

Within the Catholic natural law tradition, the common good is based on the notion that we desire the good in all we do. Our desires range from the most fundamental desire for survival to the most excellent desire for human and divine community.[19] Our human development is found in our very desires, although as we know in all too real ways such desires are easily disordered. However, it is precisely this disorder of desires that points to some proper hierarchical ordering of desires. If as an organization, the purpose is to maximize wealth, the desire for survival and basic comfort turns into greed. Yet, by integrating these desires and properly ordering the goods that they embody, human development can take place within an organizational context where the good of the person is recognized to be intrinsically connected to the good of the community.[20]

We describe the common good within the organization through three propositions that we explain further in the following section.

a) Fundamentality: Human beings have a fundamental desire for survival expressed through organizational goods of profitability, efficiency, and productivity attained through management techniques.

b) Excellence: As social beings, people have an excellent desire for community expressed through organizational goods of just distribution of benefits and burdens, participation, contribution to society and so forth, attained through moral virtues.

c) Integration: The successfully managed organization creates the conditions in which the fundamental and excellent desires are integrated, and the variety of organizational goods is ordered toward human development attained through the intellectual virtue of practical wisdom.

a) Fundamental Desire and Its Goods and Techniques: Many of our students who are concerned about financial success often tell of an experience of financial instability such as a time when parents were laid off. They do not want to experience economic instability again. Like all of us, they desire stability and security. They realize that material needs are attained through work organizations. In order to attain these material needs on a long term basis, organizations must create certain conditions that can attract capital, use it efficiently and productively and generate more capital for further continuation and growth. To attain these fundamental goods of survival, people need a certain degree of competence in management techniques. Finance provides the skills to raise and to manage capital, production provides the skills to operate efficiently and productively, marketing provides the skills to make the product or service marketable, and so forth. If management does not generate optimal profits, marketability and efficiency, no matter how noble or personally satisfying, the organization will not be viable.[21]

FUNDAMENTALITY

Desire Organizational Goods Management Techniques Survival Profitability, Efficiency, Marketing, Finance, Productivity Production, Human Resources

Neoclassical economists make much of the fundamental desire for survival which serves as the basis of a financial theory of the firm to maximize shareholder wealth. They argue that since capital plays such a decisive role in the existence of the firm, shareholder interests must be maximized. While the shareholder version of a firm describes what is fundamental and necessary, it is insufficient in describing what is excellent about a human organization.

b) Excellent Desire and Its Goods and Virtues: To write only of a fundamental desire to meet material needs ignores the social and spiritual nature and desire of people.[22] We are not simply animals seeking preservation, but we are social and spiritual beings seeking community in which we develop and help others to develop. The very word “company” comes from “companions,” a group sharing bread. People desire a community of work where they can develop skills and talents that contribute both to the organization as well as to society. For such a community to exist, managers must create conditions that provide broad base participation, distribute burdens and benefits, contribute to the larger community and so forth. To create such conditions successfully, managers must be virtuous; otherwise, employees will not trust managers and will find their appearance of virtue manipulative, preventing the possibility of a true community of work.[23]

An analogy is helpful here to highlight the difference between fundamentality and excellence. Aquinas points out three desires within human nature: 1) self-preservation, 2) the passing on and nurturing of life, and 3) social living and to know and love God. If we do not preserve our lives and maintain openness to future life, our social and religious inclination has no foundation on which to flourish; however, if all we do is preserve and procreate we would say that something is radically missing to what it means to be a human person. For example, a famous basketball player's boast of 20,000 sexual encounters and who knows how many offspring sickens most people because of its animalistic overtones. Self-preservation and procreation are deficient in explaining what it means to have a true human life when they are not ordered toward the social and spiritual life.

Similarly, without profits and other instrumental goods, a workplace where people develop has little relevance, since they cannot exist without economic sustenance. Without adequate revenue and profits, all organizations cease to exist. Yet, if an organization is only concerned about revenue and profits, we should say that something is radically missing to what it means to be a human organization. In other words, to describe an organization simply in terms of fundamentality is deficient since it fails to define the more excellent dimensions of human work. The founders of Reell Precision Manufacturing (RPM) express this point well in a welcoming message to new employees:

We do not define profits as the purpose of the company, but we do recognize that reasonable profitability is necessary to continue in business and to reach our full potential. We see profits in much the same way that you could view food in your personal life. You probably do not define food or eating as the purpose of your life, but recognize that it is essential to maintain your health and strength so you can realize your real purpose.[24]

In a case study of this same company, the opening paragraph begins with a revealing question by Steve Wikstrom, the vice president of manufacturing: What's the worst thing that could happen to the company? If Reell saw its purpose in strictly financial terms the answer would be bankruptcy. But because they see their purpose in terms of the common good, survival is not the highest good. Actually, the inordinate attachment to the more fundamental goods of profits and efficiency would be the worst thing to happen to the company, since it may gain the whole market, but lose its very soul.

EXCELLENCE

Human Desire Organizational Goods Moral Virtues Community Distribution, Participation, Justice, Solidarity, Contribution Courage, Moderation

This excellent desire for social living can be disordered from either personal vice or structural oppression, but that the desire exists in the human heart seems certain. Many entrepreneurs and managers do not go to work each day to maximize economic gain. They would be insulted by such a characterization. Yet, even for those who are motivated only by economic goods, we should not assume it as a normal state of affairs. For example, most people would agree that self-preservation is a universal desire; yet, when people commit suicide we do not call into question the desire of self-preservation, but rather look for the extraordinary reasons why such a person would commit suicide. We should do the same for social desires. When people no longer desire human community within organizations, we should examine the levels of individualism, consumerism, instrumentalism, and other cultural diseases that obstruct the social nature of persons.[25]

c) Integrating Desires and Ordering Goods: The Virtue of Practical Wisdom. The crucial dimension in the moral life is not choosing between one's fundamental desire for survival and one's excellent desire for community. Setting the idea of the moral life within an organization in this way is, for the most part, a false dichotomy. Rather, the key to the moral life is ordering these desires toward human development in a way that both can be achieved. A practically wise manager recognizes a dual order between fundamental and excellent desires. In general, the pursuit of fundamental goods is subordinated to the more excellent pursuit of community. But at the same time there is an order of fundamentality that prevents profitability, efficiency, and productivity from being destroyed (most of the time) by the order of excellence, since it is on the basis of fundamental goods that communities are built.[26] By providing a dual direction as well as a dual control, the order of goods is inclusive because those goods participate in each other in a way that one is needed for the other to flourish. The fundamental goods of profitability, efficiency, productivity, and so forth control the excellent goods of distribution, participation, and contribution in that there are limits to what can and cannot be done; yet, the goods of community direct the fundamental goods to human development and not to some isolated private interest. In other words, organizational goods are ordered as a source of help (subsidium) that sets the conditions necessary for the development of the human person.[27]

Practical wisdom is the capacity to discern the best means for attaining one's morally good ends. It is where ends and means meet. Practical wisdom is the ability to "do" the good correctly in particular cases. It is a key managerial virtue since it both does the good and does well simultaneously. Practical wisdom should not be confused with slyness, trickery, and craftiness. Nor should it be seen as a utilitarian calculation whether for society or, as Joseph Pieper points out, for the "timorous, small-minded self-preservation" of the self.[28] The practically wise manager is not the calculator, productivity technician, or manipulator; rather, she is the person who has a grasp of the various disciplines of management, perceives the complexity of the situation, and integrates the various moral virtues in the particular situation. Practical wisdom is the central virtue for management, since it is able to order the various organizational goods together in one concrete act.

The Integration of Fundamentality and Excellence

Order of Fundamentality Order of Excellence

Practical Wisdom Proper Order of Goods toward Human Development

The ordering of the desires and goods will be affected by the various factors of the competitive industry, market conditions, stages of development, and so forth. Consequently, different emphasis will be given to the different desires and goods at different times. For example, a start up company may find itself focusing more on the fundamental goods than the excellent goods. Start-up companies tend to fold in their initial stages because of cash flows drying up and poor marketing. It is quite legitimate for them, therefore, to focus on developing fundamental goods, just as a person in need of income will also do so for the sake of preserving his life. However, the danger here is that the legitimate focus on productivity and profitability in the early start-up phase may habituate the entrepreneur to focus only on these goods even when that phase is past. What can prevent this? If entrepreneurs keep in view that their organizations are ordered toward higher ends, then the focus on gaining profits and productivity can only be seen as means.

While some may find language of hierarchy too out-dated or oppressive, we maintain that in terms of understanding the goods of management, a hierarchical ordering is essential because it describes something that is truly human. Hierarchy must be understood not in oppressive and dominant terms, but in inclusive, participatory, and subsidiary (design to serve) terms.[29] A proper hierarchy of goods provides an outline of what a human life ought to be, “what goods it will incorporate, and what relation those goods should have to one another.”[30] These goods are not merely arbitrary goods but stem from the development of the human person’s physical, personal, social and spiritual make-up, all of which are essential to human life flourishing within society. Nor are the goods related in an external to internal way, but rather organically where each good influences the other and is dependent on the other for a human life that flourishes.[31] In order to understand what this properly ordered life looks like within an organization, it is imperative to understand the hierarchical order of the goods.

Need for Greater Theological Integration:[32] Within the Catholic social tradition, the common good is incomplete without a theological grounding. Human development and fulfillment come ultimately and completely through union with God. Consequently, friendship with God is the ultimate end, and most excellent desire, of the common good. As David Hollenbach points out, “Everything human beings are to do, in both personal and social life, is directed to one end: union with the God who is their maker and redeemer.”[33] We are not meant simply to live virtuously in an organization “‘but through virtuous living to attain the possession of God.’” Therefore, while the organization should display the signs of the City of God, it is not the City of God. The full theological vision of the common good cannot be manifested in the organization, since the organization is not our ultimate end. One must be careful of expecting more out of an organization than it can give. A real danger exists for those who identify their lives totally in terms of their work, even when they think their work is socially useful.[34] Yet, at the same time, it is through the organization, in part, that our ultimate end, namely union with God, is reached. Conclusion

We have attempted to show the link between the culture and the economy in general and more specifically the culture and the organization. Liberal culture in the U.S. has informed the modern corporation with a shareholder (as well as stakeholder) view of corporation. This view of the corporation suffers from a social deficiency of purpose as well as an inadequate account of the subjective dimension of work. Precisely in its pursuit to defend human freedom, liberal culture creates conditions that undermine it in corporations by failing to address the communitarian context of corporate activity. Once property becomes disembedded from the social meaning of culture or becomes embedded in culture that eradicates the social nature of property, corporations become enclaves of individuals each maximizing their own defined interests, rather than a community of work where one's development is achieved through the common good.

Endnotes:

1. In Germany, for example, codetermination laws place labor along with capital on equal footing in relationship to the corporation. This has cultural implications in terms of management's realm. Law and culture as we shall see have great influence on management decision making capacities.

2. See Berle and Means, 197 — fiduciary to the corporation vs fiduciary to shareholders 244, 287–288. Adolf A. Berle and Gardiner C. Means, The Modern Corporation and Private Property (New Brunswick, U.S.A.: Transaction Publishers, 1991). See John C. Murray, S.J., We Hold These Truths: Catholic Reflections on the American Proposition (Kansas City, MO: Sheed and Ward, 1960). The First Amendment is an article of peace not faith because it tells nothing about the church or religion. The First Amendment is acceptable not because is tells us some truth about the church or "ultimate religious belief" but because it guarantees peace. If the First Amendment legislated religious ultimacy, it would reduce religious pluralism. The purpose of law is to promote peace, it is not to give purpose. As the law does not state what the purpose of the church is, so also it does not tell us what the purpose of a corporation is.

3. We see three sets of embeddedness. These three sets of embeddedness are embedded in themselves in various ways, each influencing the other. 1) Structural Embeddedness: Economy (structural elements — organizations and their division of labor, patterns of distribution, governance structures, financial markets, and so forth) gets embedded in Culture (family, church, education, and so forth) and Government. An example of this structural embeddedness is found in analyzing the US, Japan and Germany, all of which are market economies, but are embedded in three different cultures which provide three different sets of practices in economic activity (see video Culture of Commerce). 2) Personal Embeddedness: Work gets embedded in Leisure. Once leisure becomes a form of consumption then work becomes an increasing place of economic rewards (work and spend cycle). 3) Professional/Organizational Embeddedness: Institutions (hospitals, law practices, and corporations) get embedded in Practices (medicine, law, and management).

4. See William James Booth, “On the Idea of the Moral Economy,” American Political Science Review, vol. 88, no. 3, September 1994, pp. 660-662.

5. This is not to say that religious feast days were created for the purpose of containing economic activity. They existed because people believed in the truth they contained.

6. With the decline of the church and the guilds, the capitalistic economy of the Industrial Revolution had no strong cultural institutions or practices to contain productive activity. Consequently, hours per year climbed to 3500. Fortunately, unions, churches, and government prevented the economy in the twentieth century from becoming the prime force in society. Without these institutions, we would become indentured servants to the economy. It is interesting to note that parts of Germany, which has 14 Catholic feast days, are facing pressures from its Chamber of Commerce to reduce feast days so as to work longer hours (Germans work 8 weeks less a year than Americans). The Wall Street Journal reported (with apparent dismay) that a feast day costs German industry $3.5 billion, a price that stems from the longer work hours of its international competitors.

7. See Robert N. Bellah, Richard Madsen, William M. Sullivan, Ann Swidler, Steven M. Tipton, The Good Society (New York: Alfred A. Knopf, Inc., 1991), p. 71; see The Modern Corporation and Private Property, pp. 121-122.

8 . Worker pension funds are the largest source of investment capital in the U.S. While these funds provide an invaluable service to fuel the marketplace in order to provide the needed capital to produce products and services, it has become painfully clear that certain investment policies were shifting to serve the interests of only those pension holders. These decisions had very little to do with the production of goods and services, let alone realizing the common good. Investment policies in the 1980s were dominated by short-term high-yield thinking that took the form of the unprecedented growth of mergers and acquisitions. Arbitrage firms or departments of firms would actively seek out potential takeover targets based largely on forecasts of the financial benefits to the acquiring firm. Little or no consideration was given to the employees and communities of the acquired firm, or to whether the new owner could do a better job at producing a better product. The bottom line was shareholder price. In this atmosphere, investors, including pension fund managers, did not feel it was their responsibility to consider what a particular merger or investment decision would do to or for the community concerns. While not all mergers and acquisitions took this form, the thrust of its growth, particularly hostile mergers, has largely been for financial gains. Pension funds have provided the capital to fund hostile takeovers so as to maximize their shareholder price. Hostile takeovers, however, have left many workers unemployed once raiders stripped assets and divisions from the companies it acquired. To a degree, worker pension funds have become the demise of worker security. While workers have accumulated a tremendous amount of wealth in the aggregate, they have assumed very little responsibility or power over that wealth. For example, the Wisconsin Investment Board, the state agency that manages the pension fund, has benefited from hostile takeovers as a shareholder by fighting any form of tactics that would prevent them. Yet its state legislators passed laws within its own state that have regulated hostile takeovers to protect the company employees and

ostensibly the community. In her article, Marcia Berss explains that the irony gets better. “The Wisconsin Investment Board is one of the top five pension fund investors in leveraged buyouts. ... including the RJR Nabisco takeover” (see Marcia Berss, “One Hand Dirties the Other,” Forbes, 25 June 1990, 63). Although Berss argues for state deregulation, we think it would be better if the Investment Board would place other criteria as part of its investment policy besides maximization of shareholder price.

9. See Antoine de Salins and François Villeroy de Galhau, The Modern Development of Financial Activities in the Light of the Ethical Demands of Christianity (Vatican City: Libreria Editrice Vaticana, 1994).

10. Berle and Means see increased liquidity as having profound changes in the whole property relationship. “These result from two characteristics. First, the relationship of the so-called owner property is itself shifted. Second, the machinery by which liquidity is created — in our case the public market — itself introduces a set of elements which in and of themselves affect values.”

“The owner of non-liquid property is, in a sense, married to it. It contributes certain factors to his life, and enters into the fixed perspective of his landscape. If, for example, it be a small business, a farm, or a little mill, he lives with it, works at it, builds his life at least partly around it with an agent or some human mechanism devised to run it in his absence. These are the bases of association and interests, of desires, ambitions, fears, troubles. At the same time the quality of responsibility is always present. It is never possible, save with the irresponsible, the spendthrift, or the disabled, to decline decisions. As one financier put it pithily, ‘If the horse lives the owner must feed it; if he lets it die he must at least bury it.’ Physically the owner cannot absent himself very much; he must either be on the ground, or be close enough so that by communication, (however long the range) his people on the ground can keep in touch with him. To some extent, non-liquid property immobilizes the owner by its own immobility.”

“At the same time such property is in turn immobilized by the necessity that it should have an attentive owner whose activity is indispensable to its continued usefulness. Only as the energy or resources of an owner are spent in feeding a horse or tilling a farm are they capable of rendering a service to him. So long, then, as a property requires a contribution by its owner in order to yield service it will tend to be immobile. For property to be easily passed from hand to hand, the individual relation of the owner to it must necessarily play little part. It cannot be dependent for its continued value upon his activity. Consequently, to translate property into liquid form the first requisite is that it demand as little as possible of its owner, — the most liquid form, cash demanding nothing save the minor necessity of safekeeping. Thus if property is to become a liquid it must not only be separated from responsibility but it must become impersonal — like Iago’s purse: ‘ ’twas mine, ’tis his, and hath been slave to thousands.’”

“The separation of ownership from management and control in the corporate system has performed this essential step on securing liquidity. It is the management and “control” which is now wedded to the physical property. The owner had no direct personal relation to it and no responsibility toward it. The management is more or less permanent, directing the physical property which remains intact while the participation privileges of ownership are split into innumerable parts — “shares of stock” — which glide from hand to hand, irresponsible and impersonal” (The Modern Corporation and Private Property, 249-250).

11. Sumantra Ghoshal and Peter Moran, “Bad for Practice: A Critique of the Transaction Cost Theory,” Academy of Management Review, vol. 21, no. 1,13-47, pp. 20-25.

12. “On the Idea of the Moral Economy,” p. 661.

13. See Kelso and Adler’s Capitalist Manifesto.

14. J.M. Joncas, “The Church at Prayer,” pp. 80-96, ed. Dennis J. Billy, C.SS.R., and Donna Lynn Orsuto, Spirituality and Morality: Integrating Prayer and Action (New York: Paulist Press, 1996).

15. See Haughey Converting 9 to 5.

16. LE, 25.4; quoted from Gaudium et Spes (GS), 34.2).

17. John Murray informed us of these two questions, and he received these questions from Oliver Williams.

18. James B. Murphy, “A Natural Law of Human Labor,” The American Journal of Jurisprudence, 1994. If we were to reform an organization without the recognition of the objective dimensions of work, chaos would reign leading most likely to bankruptcy. But in a similar way, if we fail to recognize the subjective dimension of work, moral and spiritual chaos will reign. When it comes to work, the moral imagination of Adam Smith, Karl Marx, Frederick Taylor, Aristotle is impoverish since human labor is determined by its objective dimensions. “once these thinkers had reductively explained the division of technical efficiency and human nature, they left no room for moral and social freedom.” (J. Murphy, 17-18)

19. T. Aquinas, Summa Theologiae, I II 94. 2.

20. According to Virgil Michel as well as Aquinas the common good and the individual good are intrinsically connected for two reasons: “The first is that one’s own good cannot exist without the common good of the family, or of the state, or of the realm. The second is that man as part of a household or state must also consider what is good for himself precisely as such a part of a larger whole (II II 47 10 ad 2). The goodness of parts is impossible without their proper proportionate relation to the whole” (V. Michel The Social Question, 25). Michel also goes on to state that there is a difference in kind between the common and individual good which separates the Catholic notion of the common good from a collectivistic or individualistic notion of the common good.

21. P. Drucker, The Frontiers of Management (New York: Harper and Row Publishers, 1986), 220-227.

22. Thomas Aquinas points out that "Any part naturally loves the common good of the whole more than its particular and private good. This is clear from the way things behave, for the chief inclination of any part is to act on behalf of the whole. We can see this even in the life of society, in so far as citizens are on occasion prepared to spend either themselves or their goods for the common weal" (IIa IIae, 114, 1 ad 2). Simon points out that the common good has a powerful hold on the consciences of people, even when it is radically misunderstood. "People of debased conduct and skeptical judgment still find it natural to die for their country or for such substitute for a country as a gang. And during the golden age of individualism the conscience of men, in spite of what the theorists had to say, often recognized the common good and served it with devotion under such improper names as "general interest" or "greatest good of the greatest number'" Y. Simon, Philosophy of Democratic Government (Chicago: The University of Chicago Press, 1951), 50).

23. See Aquinas I II 92, 1 and 90, 2.

24. Unpublished case study on RPM written by Kenneth Goodpaster.

25. One critical reason why we see a suppression of the social character of corporations lies with the ownership structure of corporations. Berle and Means in their classic work The Modern Corporation point out two dramatic changes in the relationship between corporation and property: "(1) Most fundamental of all, the position of ownership had changed from that of an active to that of a passive agent. In place of actual physical properties over which the owner could exercise direction and for which he was responsible, the owner now holds a piece of paper representing a set of rights and expectations with respect to an enterprise. But over the enterprise and over the physical property — the instruments of production — in which he has an interest, the owner has little control. At the same time he bears no responsibility with respect to the enterprise or its physical property. It has often been said that the owner of a horse is responsible. If the horse lives he must feed it. If the horse dies he must bury it. No such responsibility attaches to share of stock. The owner is practically powerless through his own efforts to affect the underlying property." [see M.J. Platts on "Limited Liability," unpublished, as well as Amintore Fanfani, Catholicism, Protestantism and Capitalism (Notre Dame: University of Notre Dame Press, 1984).] (2) The spiritual values that formerly went with ownership have been separated from it (The Modern Corporation and Private Property, 64-65).

26. See Michael Stebbins, "The Dynamic Interrelationship of Nature and Grace: A New Model for Catholic Theological Ethics." Presented at the Society of Christian Ethics, Albuquerque, New Mexico, (January 5-7, 1996). Stebbins uses Lonergan's term sublation that describes the relationship within a hierarchy of goods. "What sublates goes beyond what is sublated, introduces something new and distinct, puts everything on a new basis, yet so far from interfering with the sublated or destroying it, on the contrary needs it,

includes it, preserves all its proper features and properties, and carries them forward to a fuller realization within a richer content" (quoted from Bernard Longeran, Method in Theology (New York: Herder and Herder, 1972), 241).

27. J. Calvez and J. Perrin, The Church and Social Justice (Chicago: Henry Regnery Co., 1961), 121ff.

28. J. Pieper, Prudence (New York: Pantheon Books, 1959), 15.

29. See Terry Nichols's paper on hierarchy, unpublished.

30. Jean Porter, Recovery of Virtue (Louisville: Westminster, 1990) 90.

31. See Terence Nichols, "The Role of Hierarchy in the Church." Unpublished.

32. There is a danger in separating too clearly and distinctly on one hand means, techniques and fundamentality and on the other hand ends, virtues and excellence. Aquinas points out that "In all honest things, utility coincides with honesty except in the last thing which is the end of all ends which alone is to be desired for its own sake" (Second Sentences 21. 1. 3c). Fr. William McDonough, in paraphrasing Aquinas states it this way: "only one end, God, is to be loved for itself; all other ends are to be loved in as much as they are useful in our movement to God" (unpublished manuscript).

33. D. Hollenbach, "The Common Good Revisited." Theological Studies 58 (1989), 81.

34. See J. Pieper, Leisure as the Basis of Culture (New York: New American Library, 1963), and Aquinas, Summa Theologiae, I II q 21 4 ad 3.