SUMMARY PAPERS

THE GOOD COMPANY

CATHOLIC SOCIAL THOUGHT AND CORPORATE SOCIAL RESPONSIBILITY IN DIALOGUE

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Concurrent Sessions I/Sessioni simultanee I
“Contagious” small good firms: CSR and the rise of “social market enterprises”

Leonardo Becchetti

1. Introduction and scope of the paper

In this paper we aim to show that the diffusion of corporate good practices may be significantly enhanced by the initiative of small contagious good firms acting as “social market enterprises” (fair traders, but also other emerging social market enterprises such as microfinance institutions, ethical banks, socially responsible corporations, etc.). To explain their role we consider the paradigmatic example of Fair Trade. Such case demonstrates that small organizations of importers which fix socially and environmental sustainability rules when importing food and textile products from marginalized producers in underdeveloped countries gain the favour of a non irrelevant share of socially responsible consumers. In this way they reveal to bigger market players (transnational firms) the willingness to pay for social and environmental sustainability of an important share of consumers. Such players start competing with fair traders by finding it optimal to imitate partially their behaviour. Fair trade producers therefore reveal themselves to be contagious good firms and contribute to make CSR a competitive factor in contemporary product markets.

Generalising this approach we may say that we are assisting to the rise of a new type of firms which we define “social market enterprises” (Borzaga et al. 2001). The characteristics of social market enterprises is that they overcome the traditional dichotomy between creation of economic value (with likely negative externalities) and redistributive or inclusive policies aimed to correct the distortions introduced in the moment in which economic value is created. A social market enterprise performs both activities as it is not merely a supplier of social services. Quite to the contrary, it competes on the market, creates economic value but in a socially and environmentally responsible way, since inclusion and social justice is the goal of its economic activity.

We finally show how the joint bottom up action of “concerned” consumers and small contagious firms (acting as market social enterprises) represents an advancement of the Christian Social Doctrine on various respects: i) it promotes a balanced idea of solidarity as it focuses on the principle of the responsibility of the receiver to which not just a donation but a chance of inclusion is provided; ii) it promotes individual responsibility as it focuses on individual life styles; ii) it is capable to provide effective tools to promote the basic CSD principles of subsidiarity and of the priority of labor over capital in the new framework of globaliz ation. These specific characteristics have led to a direct recognition of its key role (for the first time in CSD) in the principle n.359 of the Compendio della dottrina sociale della Chiesa.

2. The international conditions which determined the rise of social market enterprises

An important question is why small contagious good firms are becoming today a new important feature of market economies.

In our opinion, the res novae which triggered this transformation are the ICT revolution. Such revolution accelerated the integration of domestic markets and the crisis of the old system of checks and balances which was capable to reconcile economic prosperity with a socially acceptable distribution of income.
As we all know, the first phenomenon (the ICT revolution) was generated by the astounding wave of technological innovations in the fields of electronic and telecommunication (among them the pivotal one was probably the progressive increase of microprocessors’ power) which led to a dramatic reduction in the cost and speed of transportation of everything weightless such as voice, music, data and images.

With a rapidly growing global integration the old system of checks and balances fell into pieces. This occurred because such system was based on the bargaining power of domestic institutions and domestic workers associations. Such bargaining power was dramatically weakened by the opportunities created by globalization, allowing corporations to move quite easily their legal and/or productive centers across country borders. To make some concrete examples, in the globalised scenario the possibility of delocalizing productive activities in countries in which labour costs are dramatically lower, inevitably weakens domestic trade unions. In the new framework any improvement of domestic workers social conditions may have the paradoxical effect of fostering delocalization, thereby reducing domestic job opportunities. In the same way, the capacity of domestic fiscal authorities to finance welfare policies is constrained by fiscal competition, with lower corporate taxation countries being able to attract, coeteris paribus, more foreign direct investment.

To sum up, the new scenario has significantly increased the relative power of transnational corporations with respect to domestic trade unions and institutions, with the effect that negative (environmental and social) externalities, which may be generated by transnationals in their profit maximizing activities, may not be anymore entirely offset by domestic taxation and regulation. The significant novelty in the globalised framework is that the socioeconomic system has been capable to generate an endogenous defense against this imbalance. Such endogenous defense is represented by the increasing awareness and concerns of a minority of socially responsible citizens. These citizens have promoted forms of bottom-up actions, ranging from traditional advocacy to innovative forms of “votes with their portfolios”, which we call today socially responsible consumption and investment. The rise of “small contagious firms” played a fundamental role to give visibility to this bottom up pressure. Only the existence and the positive market shares of these types of firms selling products which incorporated social and environmental sustainability features could reveal to the rest of the market the apparent paradox of consumers and investors which were not behaving as in the standard stylized textbook representations: microfinance and socially responsible investment fund investors and fair trade product consumers are an open contradiction of the *homo oeconomicus* behaviour. Economic models in fact predict that individuals, solely driven by self interest, should always look for the lowest price (for a given quality standard) and for the highest risk adjusted return of their financial portfolios.

Small contagious firms started offering products in which a social value (promotion of inclusion of the poor, environmental and social sustainability of the productive process) was associated to the possibility of a higher price or a lower risk adjusted return. They surprisingly conquered consumers and investors, thereby revealing to bigger market players that economic choices are not only driven by self interest but also by, as Šen suggested in his famous “rational fools” paper, by sympathy and commitment. Together with these two noble motivations, social responsibility was spurred also by the awareness that the increased global interdependence had transformed most local problems into global problems, whose lack of solution would harm everyone. To give some examples, deforestation in distant countries may affect climate change with potential negative consequences also on our countries. In the same way, the misery of large part of population in less developed countries, after the global integration of domestic labour markets, represents a significant threat for the defense of workers rights in more industrialized countries. From this point of view, globalization may be seen as having a providential aspect in making unfeasible the old equilibrium, in which social justice was ensured only in some countries of the world. The “fence” raised to defend social order in our countries against social chaos in less developed countries fell and it is now necessary to care about social protection in these distant countries if we want to improve
workers rights in ours. This is why social responsibility is nowadays no more a matter of altruism but, more simply, a matter of enlightened and longsighted self interest against the shortsighted self interest which ignores the consequences on our life of problems coming from distant countries.

To sum up, what happened after the entry of small contagious firms in the market? Profit maximizing corporations realized that incorporating social value in their products or in their activity was useful to attract new customers. After that moment corporate social responsibility become an important part of their competitive strategy.1 Small contagious firms which became social market enterprises succeeded, with the help of concerned consumers, in the miracle of transforming solidarity, inclusion and social justice from values which were absent from the phase of creation of value and intervened only in the following step of the redistributive welfare policies, into competitive factors.

3. A concrete example of small contagious good firms: the case of fair trade

On October the 7th, 2000 the BBC announces that “Nestle has launched a fair trade instant coffee as it looks to tap into growing demand among consumers.” The BBC comments the news saying that “Ethical shopping is an increasing trend in the UK, as consumers pay more to ensure poor farmers get a better deal.” and reports the comment of Fiona Kendrick, Nestle's UK head of beverages, arguing that “Specifically in terms of coffee, fair trade is 3% of the instant market and has been growing at good double-digit growth and continues to grow.”

This piece of news tells us that the recent experience of the fair trade initiative seems to demonstrate how small good firms may be contagious in terms of CSR and affect the behaviour of even large multinationals.


In this final section we aim to show how the rise of small contagious firms, which we also define as “social market entreprise”, represents an innovative and promising approach which successfully tackles the challenge of pursuing social justice and incarnating the principles of Christian Social Doctrine in our globalised world. More specifically, we will argument how bottom-up pressure of social responsibility and social market entreprises do actualise the principles of the primacy of labour over capital and of subsidiarity, successfully responding to the social and environmental imbalances of the globalisation era. Considerations developed in this section will lead us to conclude that the economics of social responsibility represents the new frontier of Christian Social Doctrine as an effective and new tool to pursue the goal of common good.

Our point is organised as follow. We start by making reference to the most significant documents of the Christian Social Doctrine which, in our opinion, pose the premises for the current development of the economics of social responsibility. We will finish with a quotation from the recently issued Compendium in which this cultural path reaches a fundamental achievement when the principle of socially responsible consumption is explicitly mentioned.

4.1 The role of socially responsible consumption to promote social justice
Only in the most recent *Compendium of the CSD* the reflection of the church put together all these different strands and, in the light of the *res novae* represented by the deeply transformed globalised socioeconomic scenario, officially acknowledges the importance and the role of socially responsible consumption. On this point we read at n. 359

“L’utilizzo del proprio potere d’acquisto va esercitato nel contesto delle esigenze morali della giustizia e della solidarietà e di precise responsabilità sociale: non bisogna dimenticare ‘il dovere della carità, cioè il dovere di sovvenire con il proprio superfluo e talvolta anche col proprio necessario per dare ciò che è indispensabile alla vita del povero. Tale responsabilità conferisce ai consumatori la possibilità d’indirizzare, grazie alla maggiore circolazione delle informazioni, il comportamento dei produttori, mediante la decisione – individuale o collettiva – di preferire i prodotti di alcune imprese anziché di altre, tenendo conto non solo dei prezzi e della qualità dei prodotti, ma anche dell’esistenza di corrette condizioni di lavoro nelle imprese, nonché del grado di tutela assicurato per l’ambiente naturale che lo circonda

(We must use our purchasing power consistently with moral requirements of justice and solidarity and social responsibility: we must not forget the obligation of charity, that is, providing what is indispensable for the life of the poor with one’s own superfluous and, sometimes, with what is necessary. Owing to the wider flow of information, this responsibility gives consumers the chance of affecting producer behaviour, with individual or collective decisions to prefer products of some and not other firms, not just by looking at prices and product quality, but also at fair working conditions and the engagement in the preservation of the environment)

Compendio della dottrina sociale della Chiesa n. 359

Such a clear enunciation of the principles and of the potential of socially responsible consumption is the fulfillment of an intuition which was already envisaged by *Centesimus Annus* (58), which correctly and prophetically argues: “It is not merely a matter of "giving from one’s surplus", but of helping entire peoples which are presently excluded or marginalized to enter into the sphere of economic and human development. For this to happen, it is not enough to draw on the surplus goods which in fact our world abundantly produces; it requires above all a change of life-styles, of models of production and consumption, and of the established structures of power which today govern societies. Nor is it a matter of eliminating instruments of social organization which have proved useful, but rather of orienting them according to an adequate notion of the common good in relation to the whole human family. “

Summing up our analysis of all these implicit and explicit links between CSD and the new phenomenon of market social enterprises, we may conclude that the economics of social responsibility is a new promising frontier of CSD and an important tool we have to transform the earthly city in the perspective of recapitulation, in order “to deal with human things so that to orientate them toward God” (Lumen Gentium 31).

**Conclusions**

The end of the old system of checks and balances which guaranteed in the pre-globalisation era the coexistence of economic development and social cohesion gave rise to a deep transformation of our socioeconomic system. The global integration of labour, product and financial markets weakened the bargaining power of national institutions and domestic trade unions creating an excess power of large transnationals. The result has been an imbalance in the ranking of values (too much emphasis on “accidental” elements of human life such as shareholders wealth and consumer satisfaction and subordinated importance of more “substantial” elements such as job satisfaction and quality of
relational and spiritual life) produced by the new economic culture, which is strikingly at odds with the pursuit of the common goal established by CSD. The *res novae* of our times nonetheless witness a promising endogenous reaction of the socioeconomic system to these new threats to social justice. A minority of concerned individuals started creating *small contagious good firms*, which we define as *social market enterprises*. These firms are in the market, create economic value, even though their distinguishing feature is represented by the replacement of the goal of profit maximization with that of the direct promotion of social justice and inclusion within the constraint of economic sustainability.

This goal is pursued not just by giving values to the market but by “giving a market to values”. In essence, what social market enterprises do is selling on the market new innovative products which incorporate values of social and environmental sustainability. With the support of concerned consumers and investors, social market enterprises gained in the recent years small but significant and growing market shares, thereby triggering imitative strategies of profit maximizing producers which started competing with them, in order to attract the emerging share of socially responsible consumers and investors. Social market enterprises therefore deserve large part of the merit of having transformed inclusion, solidarity and social justice, from peripheral principles which ruled the phase of distribution, without affecting the crucial moment of production, into new competitive factors on which competing firms play to survive and prosper in the market.

In the new scenario in which social market enterprises and profit maximizing imitators compete in corporate social responsibility, what appears crucial is the quality of information and the capacity of these competitors to signal their truthful engagement in social responsibility to the general public. The future will tell us how the economics of social responsibility will evolve.

What seems clear is that social market enterprises are a new interesting model of good company, for their capacity of understanding the functioning of the globalised economic system and the concrete ways in which it may be made more consistent with the goal of the common good, and for their effectiveness in incarnating principles of CSD by putting social responsibility at the center of the economic arena.
INTRODUCTION
During the year 2005 the plight of the poor reached the top of the agenda of the world’s richest nations. This was largely due to the mobilization of a huge conglomeration of NGOs, trade unions, celebrities and faith groups under the banner ‘Make Poverty History’. Yet for all the strengths of Make Poverty History the campaign suffered from one significant weakness: it underestimated the potential of business to help in the battle.

Business faces unprecedented opportunities to be an agent of positive social, material and spiritual transformation in the contemporary world. This is partly because under the impact of globalization, business is able to deliver the kind of economic growth that lifts people out of poverty, giving them hope for the future and a vision of dignity and well being which can be achieved through their own honest endeavour. The recent experience of countries such as India and China appears to confirm that there is no way to alleviate poverty effectively than through the vigorous growth of enterprise. This has been true for every rich country, and it’s true for every poor one now.

Business alone is not enough, of course. The campaign rightly stressed the importance of well-targeted aid, debt cancellation and reform of global trading rules. To really prosper, however, a nation requires two additional dimensions. First, it needs the social institutions that characterise all free societies, such as property rights and the rule of law. Second, every country needs the cultivation of norms and the exercise of virtues beyond the requirements of the law. These social institutions, norms and virtues are often nurtured, shaped, inspired and sustained through religious belief and the kind of strong relationships and social networks built on trust that religion tends to engender. Business thrives on such relationships, driving poverty and its ugly history toward their final end.

Social institutions, religious traditions, norms, virtues, relationships, social networks, trust; these are all aspects of what social scientists now call ‘social capital’ and yet they have been the stuff of Catholic Social Teaching (CST) and its application for more than a century. This paper seeks, therefore, to highlight the potential of CST, when applied to business, to address the greatest moral challenge of our time: the eradication of poverty.

Outline
The first part of this paper begins with a brief survey and discussion of four of the major themes of CST: human dignity; solidarity; rights and responsibilities; the spirit of enterprise.

Three important points need to be made about this selection. First, although the theme in CST of ‘God’s option for the poor’ is obviously important, we take this as a given so as to allow us to focus on aspects themes that are less commonly considered. Second, the various themes of CST interlock and overlap; they are separated out only for the sake of analysis and application. Third, the final theme may sound out of place. However, the encyclical Centesimus Annus (CA), issued in 1991 on the centennial of Rerum Novarum – meaning literally ‘of new things’ – was in itself a ‘new thing’ in CST, reflecting as it did on the new
things that were opening up at that time with the fall of communism. One of the new features of CA was a sympathetic understanding of the dynamics of commercial enterprise within a dynamic capitalist global economy and of its potential in the alleviation of poverty. It is this new feature that has inspired this paper.

Following the summary of each CST theme, the paper seeks to highlight the relevance of that theme to contemporary business. It does so by conceiving of it in terms of a type of ‘capital’, thus allowing theological and economic concepts to combine.

Interwoven into this paper are three case studies from Hindustan Lever, Voxiva, and ICICI Bank. These serve to illustrate the themes considered and the positive role that can be played by responsible corporations in the alleviation of poverty. These companies do not consider this role either in terms of CST or in terms of ‘corporate social responsibility’ (CSR), at least not explicitly. Their contribution to the alleviation of poverty occurs through bringing together a humanitarian vision with business opportunities. They do so by pursuing their core business activity rather than through involvement in certain CSR ‘projects’. Nevertheless they manifest traits that go close to the heart both of CSR and CST.

The conclusion to the paper seeks to integrate the theoretical and case study sections in an attempt to sketch out how business that is informed by CST can become an effective moral agent, contributing to the quality of society and to human well-being.

**MAJOR THEMES IN CATHOLIC SOCIAL TEACHING**

1. **Human dignity**
Belief in the inherent dignity of the human person lies at the foundation of CST. Because humans are made in the image of God (Gen 1:27), they are the clearest reflection of God on earth and should therefore be accorded all that is necessary for living a dignified human life. It also means that they are the end of business, rather than the means, and that their dignity comes not from the work they do but the persons they are. It is primarily because poverty mars the image of God in human beings that its elimination represents a moral priority.

1.2 **Human capital**
The concept of human capital affirms the dignity and creativity of the human person and regards them as foundational to a humane economy. The expression of creativity within the economic sphere is, therefore, a significant expression of human personhood. Human personhood is compromised, accordingly, when an economic, social or political system denies people the freedom to express their creativity in productive activity. Where, however, economic freedom is enhanced and creativity fostered, human potential is better utilized and surplus goods are created that can meet the needs of those who are unable to provide for themselves.

CA recognizes the crucial role played by human potential for economic productivity in the contemporary global economy; Pope John Paul II argues that land has been replaced by the possession of know-how, technology and skill as the decisive factor of production. If globalization is to uplift the poor it will do so only in so far as it realizes the God-given potential for human dignity with which the human person has been endowed.

**Case study 1: Hindustan Lever**
Around the world, 2.2 million people die from diarrheal disease every year, around a third of them in India. Hand washing with soap is a critical way to combat this, though convincing the rural poor that this is the case is a major challenge.

Hindustan Lever (HLL), a subsidiary of the multinational Unilever, has responded to this challenge by pursuing a vigorous and extensive education and marketing programme which aims both to help eliminate diarrheal disease and to increase sales.

The programme has now reached about 70 million people and has imparted hygiene education to over 25 million children. It has made a significant contribution to levels of rural health and has helped its Lifebuoy product, sales of which were waining in the mid 1990s, to become the dominant soap product in the Indian marketplace.

2. Solidarity
The recognition of human personhood allows for the exercise of solidarity, for the dignity of the human person is realized in community. This stems from the fact that we are created in the image of the triune God and are therefore relational beings, social by nature, and as such inextricably involved in each other’s welfare.

From the early 1960s, CST recognised the implications of this teaching in a world that was becoming increasingly integrated. It was left to John Paul II, however, to call on the Church to promote greater participation in the global economy in order to create a global culture of solidarity that would help reduce globalization’s negative effects. The winners in the global economy must allow the losers to ‘enter the circle of exchange’, not to make the winners into losers (and visa versa) but so that all may benefit.

2.2 Social capital
As already noted, the concept of ‘social capital’ has enjoyed increasing popularity in recent years amongst sociologists and economists, as a way of denoting the values, norms, associations and relationships that make up civil society. The potential contribution business can make in the building of social capital in developing countries is becoming an increasingly important part of the CSR agenda, driven in part by the growing recognition that business thrives best in societies with high levels of social capital – societies in which solidarity and participation are key characteristics.

Case study 2: ICICI Bank
The prevailing image of microfinance is one of a charitable activity conducted mostly by non-profit organizations. Recently, however, commercial banks in India have been entering the microfinance sector. This is being led by ICICI Bank, whose microfinance clients rose from 10,000 in 2001 to 1.2 million today. Such clients, who fail to meet the lending criteria of traditional banks, are typically poor women needing credit to set up a rural shop, or to buy land and/or seeds to grow vegetables and flowers.

ICICI Bank’s ability to make a commercial success of microfinance has been due to its use of innovative models and initiatives. Microfinance institutions (MFIs) tend to borrow from banks and lend it on to clients and are thus limited in their capacity to take risks. ICICI Bank, however, has initiated a partnership model in which the MFI acts as a collection agent instead of a financial intermediary. This means the loans are contracted directly between the bank and the borrower, thus separating the risk for the MFI from the risk inherent in the portfolio, thereby increasing leverage capacity.
By encouraging the involvement of venture capitalists, ICICI is also scaling-up the microfinance sector by increasing the supply of equity capital. ‘We need to stop sending…the signal that microfinance is not a commercially viable system’ says Nachiket Mor, CEO of ICICI Bank.

3. Rights and responsibilities
The only way to achieve solidarity and participation is through the protection and maintenance of personal rights and responsibilities. Indeed, human rights are a requirement for civil society and it is a human duty to protect them. In Catholic teaching these rights include economic rights, such as the right to healthy working conditions, to wages sufficient to secure a standard of living in keeping with human dignity and to property ownership. Abject poverty, therefore, is a situation in which people are being denied basic human rights. This is what makes the issue of property rights not only an economic and anthropological issue but also an institutional and moral one.

3.2 Institutional and moral capital
The institutional and moral dimensions of property rights are brought into particularly sharp focus when the plight of the poor is taken into consideration. For the poor to benefit from trade, they must be allowed legally to own the property that is to be exchanged. Consequently, they will never be able to ‘enter the circle of exchange’, and remain there, without the support of a strong juridical order.

It is particularly for this reason that the charge that property rights exploit the poor, which is commonplace in Christian teaching, is so misplaced. In Rerum Novarum, Pope Leo XIII is adamant that property rights are in accord with nature and are inviolable.

More recently the US Catholic Bishops have asserted that the protection of economic rights is a moral objective. They also stress, however, that the morality of property rights extends to the responsibilities that attend ownership. The first of these is to develop a sense of detachment from material things, in order not to idolize them or lose sight of the transcendent dimensions of earthly existence. This allows the cultivation of stewardship towards one’s possessions, using them to the benefit of others. By means of the notion of stewardship, therefore, Catholic teaching on private property comes full circle in affirming the importance of solidarity.

Case study 3: Voxiva
Infectious diseases cause over 60% of all childhood deaths. Many of these are in Africa, where around 300m people suffer from acute malaria, 90% of them in sub Saharan Africa. Controlling the spread of infectious diseases demands early detection of outbreaks, rapid medical response and detailed monitoring. This is problematic in rural areas of developing countries, which lack the necessary information and communication technology.

Voxiva is a medium sized company providing practical information in support of health care in poor rural communities. Using basic technologies such as fixed line phones and unsophisticated mobile phones, it facilitates the real-time transmission of data reports from rural areas to Voxiva’s managers and health professionals and the sending back of alerts and information. In Peru’s struggle against cholera and Indonesia’s struggle against bird flu, for instance, Voxiva has played a crucial role in improving the speed and quality of medical responses and saving lives.

4. Spirit of enterprise
Human beings find fulfilment, Pope John Paul II explains, by using their intelligence and freedom to ‘utilize the things of this world’ in such a way as to gain entry into the circle of
exchange. Because it is the acting, thinking, creating person-in-community that has become the chief source of wealth, gaining such entry calls for certain critical abilities, including:

- the ability to plan and organize work that involves many people working towards a common goal;
- disciplined and creative work, involving initiative, risk-taking and entrepreneurship;
- the virtues of diligence; industriousness; prudence; reliability and fidelity in interpersonal relationships; courage in carrying out decisions that are difficult and painful but necessary.

This list demonstrates that Pope John Paul II had a sound grasp of what it takes to be a successful and conscientious entrepreneur in the contemporary economy. It also shows his determination to ask ‘what causes wealth?’, rather to become preoccupied with definitions and causes of poverty. When the wealth question is addressed it becomes clear that something that goes beyond not only natural resources but also human, social, institutional and moral capital is needed. It is clear at several points in CA that the Pope considers this to be human creativity, initiative and imagination. In other words, the world has an almost limitless supply of wealth creating resources.

4.2 Spiritual capital

Peter Berger is likely to have agreed with Pope John Paul II on this matter, given Berger’s insistence on the importance of attitudes, dispositions and patterns of behaviour in business performance. While he regarded these as aspects of ‘economic culture’, more recently the term ‘spiritual capital’ has been used to denote a sphere that incorporates but is wider than these elements. Not necessarily tied to organizational religion and encompassing more than is generally understood to belong to moral capital, spiritual capital is to do with the human quest for meaning and purpose, and with processes of transformation that are needed to fulfil this quest.

Within business, growing numbers of people are embracing the spiritual capital agenda, finding in it a means to stimulate and sustain a ‘spirit of enterprise’ and their efforts to manifest the kind of abilities Pope John Paul II describes. Many of them regard the role of business in the alleviation of poverty as a key concern, not least because of the light it sheds on the purpose of business – what is business for? – and thereby the purpose and meaning of their lives. They seek to use their creativity, initiative and enterprise to help ensure that the market works better for everyone, including the poor. Their spiritual capital is expressed in the way they use their gifts to embrace the market in the cause of social justice.

CONCLUSION

CST provides a rich resource for reflection and action on the role of business in poverty alleviation. It does not offer a detailed economic programme as to how this is to be achieved. It’s key insight, articulated in particular in CA, is that the most promising pathway out of poverty is gaining access to the global economy and that this will require different habits of mind and heart on the part of all involved. Rights and responsibilities will ultimately only be upheld when human beings accept that they are guardians of each other’s welfare.

Those in business (such as those behind our case study stories) who are allowing the poor to enter the circle of exchange, and those among the poor who are seeking to enter that circle, reflect the fact that it is people who is in charge of the market, not the other way round. The ‘generativity’ of the market is not a magical or automatic or impersonal force that is outside
human control. On the contrary, it originates in the mind, conscience and spirit of human beings.

No one, therefore, can abdicate responsibility for the economic decisions they make. To say that we have no choice is merely to say that we lack imagination and courage. In other words, that we lack spiritual capital. This is never more true than in the current era, in which, due in large part to the increasing monetary value of ‘cognitive skills’, the number of people with the potential to escape poverty is unprecedented.

In CA, CST comes out strongly endorsing the free economy but rejecting the notion that it cannot be made to work for everyone. Because of this, and because of its wealth of spiritual resources, the Catholic church could make a significant contribution to the creation of a moral and spiritual ethos in which entrepreneurship that is of benefit to the poor can flourish. As many sociologists since Weber have pointed out, the attitudes and disciplines of entrepreneurship have been generated largely by Protestants, often in conscious opposition to the cultural influence of Roman Catholicism. Since the publication of CA, however, there is every reason to think that the Catholic church could match or even surpass this role. The circle of exchange and productivity needs more than ‘market forces’ to keep it open.
An Exploration of the Influence of Catholic Values on Management Practices of Heads of SMCs: the Social Doctrine of the Catholic Church Put to the Test Within Firms

Jean-Luc CASTRO

Under the cover of a research in Management Sciences, we wondered about the influence of Catholic values of the heads of SME’s, all members of a Christian Entrepreneurs and Managers’ French movement (“CFPC”), on the way they managed their employees. A cursory examination of this question led us quickly to take a closer look at what is known as “the doctrine” or social teaching of the Catholic Church (STC).

At first, we tried to get a good understanding of those principles which are supposed to regulate within the firm the action of managers who are of the Catholic faith. In order to do so, a very detailed analysis of the content of the STC was necessary. This led us to bring out from this very dense entity that makes up the doctrinal corpus an ideal of management inspired by Catholicism and based on seven main concepts:

- The individual within the organisation
- The firm
- The link between the individual and the firm
- The manager of the firm
- The link between the manager and his employees
- The human resource management practices
- Trade unionism

In a second stage, we have progressively discerned, thanks to the procedures and techniques proposed by Strauss and Corbin (1990) which sum up the know-how developed over 20 years in the area of “grounded theory”, an exploratory model of the mode of influence of the Catholic values of the SME manager on his technique of management.

To develop this model, we used a systematic and methodical exploration of primary and secondary data, and made use of the specialist literature as an instrument of potential conceptualisation to be constantly confronted against the empirical data.

The secondary data are made up of 9 testimonies dating from 1991 of Catholic managers of big companies and different nationalities, as well as a university thesis retracing the history of Christian employers in a French town, Nantes, which lies at the intersection of three regions – Brittany, Anjou and Vendée – that have been historically marked by Catholicism, and where we live. The period studied goes from 1930 to 1989. The primary data consist of 15 interviews of members of sections of these regions, of which 12 are managers of SMEs. The interviews took place between 1998 and 1999.

In addition to the secondary data, 7 interviews served, in a first step, to conceptualise the model. Next, a detailed and repetitive analysis of 4 of them made it possible to further elaborate and bring forth an exhaustive method of treatment of the other three primary data already used as well as of the 8 others awaiting analysis. As a result, fifteen interviews in all were systematically analysed. Besides supporting the emerging model, their analysis allowed us to isolate significant elements of responses to the questions asked. These responses are of three types.
First, the desire to understand how Catholic values operate in the mind of the manager and subsequently in his actions, presupposes knowledge of these values. The meticulous construction of the ideal of managing people in a firm, according to the social doctrine of the Catholic Church, makes it possible to find the most complete set of principles from which the managers might draw. These principles provide an adequate representation of the manager’s Catholic values at work since they are part of an explicit normative corpus, capable of embracing variable and incidental formulations that the manager confers on them. To demonstrate this, the first part of the article explains what the STC is and then describes the nature of the link which binds it to the adherents of the Catholic faith. The first part then recounts the difficulties of constructing this ideal of management and includes at the end an extract on the conception of the company manager. To give an idea of this view, let us consider the seven principal qualities expected in Catholic heads of companies.

For John XXIII, because heads of companies in particular have to adapt their conduct to social change, they have to have “balance (...) penetration, a practical turn of mind that enables them to interpret concrete cases rapidly and objectively and a decided and vigorous determination to act promptly and effectively” (*Pacem in terris*, 1963). He also points out the importance of moral rectitude, a virtue that Paul VI, using the term honesty, is at pains to define and explain. It is based on a sound moral sense and acute sensitivity to justice and injustice (for example, with reference to workers’ pay). It implies a highly upright and demanding personal conscience. The head of a company who possesses this quality seeks truth in action and word and wants for himself what is good, in line with the intimation of moral law on his conscience. Cheating or compromise with it is unacceptable. Thus, according to the Episcopate of the United States (1986), his moral obligations are not limited to the merely ethical injunctions that pervade the business environment. The larger and more powerful his company is, the more he is accountable for his actions from the moral and institutional point of view, as are the shareholders. Indeed, whether it is a question of natural resources or those created by human industry, “nobody may ever have absolute possession of capital or use it without taking account of others and everyone in the company”. In the case of capital constituted by human means, the head of a company owes it to the work of many other people and to the help given by local communities.

Apart from the emphasis placed on honesty, Paul VI (1966) assigns two other fundamental qualities to heads of companies: skill and social sense. The first is essential; it consists in organising both men and means as rationally as possible and assumes the gathering of information, studying, travelling, reflection and hard work. It is asceticism which is counterbalanced by the right to speak out, to put his views across and to be listened to by those in his profession and by public authorities.

The second, based on the constant reminder that a business is an activity at the service of man, assumes that the head of a company has a constant concern for the human aspect of his task: a concern to allow human talent that is so varied to express itself freely; an effort to create genuine co-operation among all; a perception of the vision of the common good of his region, his nation, the continent and even human society as a whole. So the head of a company has to possess the following seven qualities: balance, honesty, penetration, a practical turn of mind, determination and social sense.

The second response that our research brings, in agreement with the question asked, is a modelling, of an exploratory nature, of the processes by which these values proceed from the state of principles in the mind of the manager to that of realisations of a practical order. To
reflect this passage of thought to action, we will frequently make reference to the idea of a value process in the singular. This meaning, which has its origin in Louis Lavelle (1951), the French theoretician of value, is complementary to the plural usage mentioned above. Indeed, for Lavelle, the main property of any particular and individual value is not so much to be able to be represented by the pronouncement of an idea (liberty, solidarity, etc), or a moral principle, as here, but rather to be sent back to an act of the mind, an intentional movement of the human being who seeks to transform this idea or principle into a reality. Thus, depending on whether you are interested in value as activity or as content, you will be dealing with the singular (value) or the plural (such and such particular values). The second part of the article makes this analytical model explicit.

Finally, the third answer contained in our research gives us an indication of the manner and the degree to which the principles of STC are personified in the management of the Catholic leaders of small and medium-sized companies; of the specificities of their religious identity together with the concurrent values and the other conditions which affect this value process. The third part of the article summarizes the essential results obtained by describing an ideal-type of the Catholic leader of a small and medium-sized company. We shall call him AB and present him now.

AB was born in a catholic family and grown up in this confession. Before rejoining the “CFPC”, seven or eight years ago, he was member of another catholic professional group. He is not yet 50 years old. He goes more or less regularly to the mass, and gives particular importance to the prayer. His wife is also implied in the “CFPC” activities. In his life, he has one or two spiritual compasses which direct him: Jesus and his Christian brothers.

He has known all kinds of churchmen, and, as a whole perceives them positively, but today he is closer to his group’s spiritual adviser, Father CD. He appreciates that CD does not hesitate to challenge him over his actions, or the meaning of his faith. Thanks to him he looked further into his knowledge of the social doctrine of the church. The last “CFPC” symposium and, in particular, François Michelin’s testimony, a famous French company manager, gave him an insight into the teaching of the Church.

Therefore, he would hardly evoke this corpus like his spiritual adviser, and he feels that he knows only a small part of it. But, he rather agrees with what he knows of this teaching. He often remembers these principles in his company, even if he does not always catch how to apply them.

However, he does not inevitably agree with all what the Church says, and around him, within the “CFPC”, it is similar. But, even when some positions are criticized, it should be done with reserve. Besides, he regrets the brutal departure of FG, another member of the “CFPC”, but it is perhaps a good thing because he expressed more and more his dissatisfaction about the movement. Moreover, he seemed to live a strong questioning of his belief.

AB thinks that one comes to the “CFPC” with good reasons, and when the group does not answer anymore to them, one leaves it. At 40, seven years ago, he wished to make up his mind on his faith and find the best way to apply it in the professional life. While speaking to his father-in-law, this one gave him a specimen of the “CFPC” review. He found it interesting, and decided to adhere. The majority of his group’s colleagues are by the way sensitive to the question of coherence between faith and acts in the company. The company employees often know about their engagement, even if they do not speak much about it. But,
often, it is significant for them to know that their collaborators find them rather coherent in their daily behaviour.

It is not always simple to manage, and it is wise to share spontaneously one’s problems with other company leaders who share the same faith. However, the composition of the groups is not always ideal for that. There are many professionals or executives whose concerns are not really comparable with company managers. But, they are Christians too. They also come to be trained, to reflect, or to receive a support of the others in the case of "hard knock". And then, there is also the symposium, which, in one way or another, galvanizes almost everyone.

The virtue of “CFPC” is also to provide for a time responsibility for a group, and, in accordance with the national instructions, try to make the members progress. Furthermore, there are the old ones; a person like JPD, a person you would hardly meet. They are lively memories of the movement, references, since they joined the group 25 or 30 years ago. They often contributed to reform things in a positive direction; thus, JPP which militated to reduce the groups’ size several years ago.

But, ultimately, AB wonders whether a trace remain of all that: the faith, the “CFPC”, the received education, the churchmen in everyday life, in the workshops or the departments of the company that one must direct.

When AB looks at his professional life, he becomes aware that he could multiply the examples where he has sought to reconcile the good of the company and that of his colleagues. In the moments of prosperity, it was no doubt easier; however, it is in the difficult moments that it was necessary to find solutions. What is certain in his eyes in any case, is that he has always wanted to consider his colleagues with humanity and to treat them with dignity. He has always shown himself to listen to the people who are going through difficult moments for professional or personal reasons. When he has had to part with certain of them, he has done his utmost for them to be able to find a job, particularly by mobilising his personal networks. If they had the potential, he has helped them to create their own company. With his colleagues, he has arranged it in such a way that they can improve and perfect themselves every day. Thus, he remembers having entrusted a new branch to a colleague who was constantly complaining, saying to himself that there he would find a better use for his professional capacities. But without going to this extreme, he has regularly sought to reorganize the activities and work methods of his colleagues as closely as possible to the demands of their profession, without ever skimping on information and training.

AB has wanted to make of his company a true working community. In addition to a system of participation and profit sharing, he has regularly brought his staff together to inform them of the mechanisms of management and to explain to them the reasons for his economic choices. He has always refused to resort to temporary labor, preferring to build up a lasting relationship with staff. Life in the company has always been marked by moments of conviviality, such as meals or drinks taken together. With his salesmen, willingly inclined look for more individualized forms of remuneration, he has revised the forms of remuneration in a more collective way.

When the situation of the company permits it, he has tried to recruit young people in difficult situations or tried to participate in their reinsertion effort. In other circumstances he has recruited more mature employees excluded from the mainstream. The most demanding for a leader is, when faced with the multiplicity of aspirations of his staff and a variety of behavior,
to be exemplary. Thus, during several years, while the company was developing, he has openly indexed his salary on the variations in the results of his sales team. Moreover, the information on the salaries paid to all the members of the company is publicly and regularly circulated. He has sought to complement this concern for justice by working on himself so as to show himself more patient and charitable, in particular towards the most hostile or least competent colleagues. He thus helped a young, particularly maladjusted intern to continue his internship by multiplying the signs of patience and attention whereas another would have parted with her within the hour. In the same way, he attempted to explain, with pedagogy, to a colleague, whose behaviour was manifestly a source of conflict, what was expected of him and to make him measure the consequences of his acts.

AB regrets, on the other hand, his recurrent difficulties with the staff representatives. And he knows that he is not the only one in his section to experience them. He sometimes finds it difficult to understand their reactions and finds it painful to hear criticism which seems to him to be often out of step with his perception of the company or formulated by people who are not always credible in his eyes. Moreover, although he has made an effort in this area, he is not sure to have gone as far as necessary in a distribution of tasks in the company which is continually more in conformity with the real capacities of each colleague in the company. Finally, while the STC has for a long time urged Christian leaders of companies to show great imagination in solving social and economic questions, AB feels that he himself and his section colleagues, with whom he can compare, are not necessarily in the forefront of this fight. In spite of this, he is happy with his frank and open attitude towards the question of salaries, an attitude that he does not always find among his pairs.

AB wonders today whether he will be able to continue to lead the company in the future with his own style of management, a mixture of strong moral convictions, a good initial higher education and an entrepreneurial temperament. Indeed, although his company of less than 200 employees is in rather good health, the pressure of constraints of all types in the profession keeps increasing. A true race for productivity has started in the sector and it is necessary to be able to follow. Moreover, the legal norms regulating the different professions exercised by the company keep on accumulating and getting more complicated. In addition, these professions are evolving at high speed and are becoming ever more specific each day. The deontological demands of the profession are also increasing, but in this case, it is rather good news on condition that one stays within the limits of common sense.

The other fear of AB is noting over more than ten years the importance taken on by financial power in companies. Be careful! He is the first to find it normal that shareholders should be remunerated correctly, adding willingly that these have a social responsibility towards the money they earn (the eternal topic of investment!), but that this should not be done to the detriment of the other interested parties, customers, employees, etc. He considers it abnormal to sacrifice jobs and to dismiss people in an exclusive spirit of immediate profitability. He sometimes has exchanges of this type with his section colleagues and it often happens that he notes that none of them, including himself, are protected from conflicts of values, contradictions and that, depending on the cases and proposals examined, the Christian values and those of liberal economics either get on very well together or oppose each other strongly, or compose strangely.
The concept of corporate social responsibility (CSR) suffers from a fundamental weakness: the lack of a solid foundation. The purpose of this study is to contribute to the study of its ethical, social and legal bases.

Responsibility is a moral category. As such, it is part of every human action. Responsibility, strictly speaking, appears when an action and its effects are attributed to a person as a moral agent. Thus understood, responsibility is the moral judgment of the action made either by the agent herself or by an outside observer. It is retrospective or a posteriori: an agent acted (or failed to act) in the past, and the resulting moral responsibility for the action and its consequences is attributed to her. Moreover, the attribution of moral responsibility implies that the agent must be capable of accounting for her action or omission, and its consequences, not only for what she does, but also for the moral reasons for which she does it, i.e., the reasons that justify the action. Responsibility as accountability is social, open to others, owed to another person or community, and so subject to the normative standards required of interpersonal behavior.

Moral responsibility may also be understood as a duty or obligation. It presupposes responsibility as an attribution for an action or omission and its consequences, as well as a willingness to account for this responsibility and is also related to the agent’s social or legal position or role. In this sense, it is prospective or a priori: it looks at the future actions and consequences.

Corporate responsibility is sometimes said to be “social” on the grounds that companies are “agents” that operate in society and are a part of society, and so need a “social license” to operate; or that they have an obligation to improve the society in which they operate, by being “good citizens”; or alternatively, that they must “give back” to society at least part of what they receive from it. Nevertheless, this is questionable. First, it is not clear what a “social license” consists of, if it is not an ethical responsibility. Second, society’s demands may be unjust or immoral. And third, contingent and variable societal norms do not give rise to strict responsibilities, but are accepted for reasons of interest.

The preceding discussion of the various meanings of “responsibility” allows us to clarify the nature of CSR. It is a moral responsibility that is specified in certain prospective duties or obligations. It is social, at least in the sense that it must be open to the rendering of account to the people and communities toward whom it is exercised. CSR is not a social responsibility in the sense of being a response to social demands or expectations of a sociological, not ethical, nature. The community (essentially, the stakeholders) has a right to expect certain actions from the company; but those expectations can only become part of CSR if they become a moral obligation for the company. What society does is help to specify the content and characteristics of the responsibility for a particular place, time and circumstances.

CSR is attributed to the organization, but also to those who lead it and, to some extent, to all those who are part of it. It is not a legal obligation (though it may also be that), because its enforceability derives from ethics, not from law, and also because it goes beyond what the law demands. It is therefore voluntary, though not discretionary in the sense that companies can take
it or leave it as they choose, but normative or prescriptive: the company “must” take its responsibilities into account as a moral obligation (an obligation of conscience), whether or not that obligation is backed by the force of law or social norms.

CSR is not confined to “good works”, charity, welfare or philanthropy. These may be part of CSR, but they are not to be identified with it. These are duties for all people, at least insofar as they have information about the needs of others and the necessary resources (money, time, knowledge, etc.) to meet those needs. In any case, philanthropy could be seen as a way to exercise the social responsibility not of companies, but of property ownership, which would tie in with the so-called “social function of property”.

What is a company responsible for? Traditionally, we distinguish three areas of responsibility: economic, social and environmental. But this is a practical classification, designed to help organize work and information. It does not properly reflect all that CSR entails.

As an economic institution, the company’s goal must be to optimize efficiency, that is, obtain the best results for society from scarce resources – or to put it another way, to maximize social value.

As a social actor, the company relates to other human communities, being itself a human community. This marks the boundaries of two spheres, one external, and the other internal. Seen from the first sphere, the company is a community within other communities. In this web, the company provides a service to society (by producing goods and services) and generates a broad set of relationships, which are governed according to legal criteria (obedience to the law, observance of contracts, etc.) and economic criteria (adherence to the rules of the market). Out of these relationships come social responsibilities, which define how the company understands its role in society, and also how society understands the role of the company and, therefore, the relations between the two. When CSR theory says that companies must be “good citizens”, what is meant is that companies have social responsibilities that are not merely economic. Seen from the second sphere, as an internal community, the company’s purpose is to satisfy the inner needs of its members (managers, employees and owners: its internal stakeholders) by fulfilling its purpose in society, which is to produce goods and services and be a good citizen toward its external stakeholders.

The environmental dimension adds the need for the company to be sustainable in a likewise sustainable society. It adds no new arguments, but it does add the idea that the organization must be capable of surviving in the long term, which depends on ecological, as well as economic and social consideration.

We pointed out earlier that CSR must be voluntary but normative or self-enforced. That raises at least two problems. The first is practical: Is a concept of CSR that is not accompanied by coercive measures for its implementation workable in practice? In other words, would it not be preferable or even necessary, to bolster CSR with the coercive force of law? The second is theoretical: What makes a voluntary norm enforceable? What force can move free agents voluntarily to act in accordance with a responsibility that appears to contradict their economic preferences?

Let’s take the practical issue first. Some experts, especially politicians and non-governmental organizations, propose that corporate social responsibility be enshrined in laws or regulations that are binding on all companies. Without this coercive component, they argue, companies will not fulfill their duties of social responsibility. This proposal may be debated on two levels. On a practical level, it is a question of what is most appropriate or advisable. Some CSR have been legislated; yet it makes no sense to extend the law to encompass all social responsibilities.
But there is a second, deeper level. Social responsibility, understood as a response to pressure from society, is aimed at achieving results which apparently are achieved more easily and, above all, more surely using forms of motivation based on punishments (e.g. taxes, prohibitions and sanctions on companies that pollute) and rewards (such as tax subsidies or deductions for companies that voluntarily cut their emissions). However, organizational control theory has shown that, given the diversity of motivations of free agents, the use of rewards and punishments may be, and in fact very often is, ineffective and even counterproductive, because it creates perverse incentives. In other words: compulsion and control may not be the best means to achieve the outcomes expected of CSR.

Moreover: if CSR is an ethical responsibility, its goal goes beyond outcomes, as it aims to improve the quality of people's decisions in companies, which can only be achieved by means other than coercion. And that leads us to the second question raised above: What kind of enforceability can a voluntary but normative rule have? The answer is: the same kind of enforceability as ethics. But that again leads us to another question: if there are many moral theories, what ethics are we talking about?

A condition that to us seems central is that the desired ethical theory must be capable of autonomously generating self-enforceable norms, norms that do not depend on the existence of a law and the coercive power of the state, or on a game of rewards and punishments. How is that achieved? The enforceability of the moral norms depends mainly on the moral constitution of individuals; that is, on their internal motivational structure. Therefore, we need a model of the structure of human motivations that is capable of generating such ethical behavior without having to resort to positive or negative incentives external to the agent.

When an organization aims to survive in the long term, it needs not only to achieve its goals today, but above all to create the conditions in which it will be able to continue to achieve those goals in the future. This will be possible with the collaboration of its members: owners, managers, employees, etc. And all these people will be motivated to work with the organization for different reasons.

Moreover, if the organization in question is a business enterprise, it must pursue its goals efficiently, as befits an economic institution. This demands that the value of the resources the company receives in return for the services it provides to society must be greater than that of the resources it uses to secure the collaboration of its members, including external suppliers. That is to say, it must create value. Hence the condition of maximizing efficiency that, under certain conditions, means the maximization of shareholder value.

But this process is subject to two conditions. The first is that, at least in the long term, society will demand that the value creation be positive not only for shareholders, but for society as a whole, as it would make no sense for an economic activity to consume more resources than it created. Or to put it another way, the value creation must be social value creation.

The second condition is that, in creating value, the company must neither destroy its capability to continue to provide a service for which society is willing to pay a fair price, nor its capability to continue to win its members’ collaboration in creating value. This demands understanding how these capabilities are acquired and, therefore, how they may be jeopardized.

For that, we must go back to the variety of motives that lead a person to become a member of an organization. These motives can be reduced to three. First, the organization’s material response to the member’s collaboration (pay and promotion in the case of an employee): the extrinsic motives. Second, what the member obtains directly from her collaboration (satisfaction at work and the acquisition of operational capabilities): the intrinsic motives. And
third, what the rest of the organization’s members derive from this member’s collaboration: the external motives.

What is important about these three motives is that a manager must take into account not only the direct effects of the company’s actions on the economic dimension, but also the changes that take place in other dimensions, in the company’s members, and in those who have dealings with it: all the effects of the company’s actions, in order to create the necessary conditions for the organization’s goals to be achieved in the long term through the collaboration of its members. The most important thing, in any case, is not the results (profits), but the processes: the possibility of continuing to obtain results in the future. And the most important contributions to these processes belong to ethics, as the science that studies the conditions for the improvement of people and organizations, but understood not as a set of norms or principles imposed from outside, but built on an analysis of the theory of human action; an ethics, therefore, that is capable of explaining the conditions that must be met in order for people and organizations to be able to make better decisions in the future, and capable also of offering the means for such conditions to be established.

The mechanism that develops these capabilities is the moral virtues. They are the means of internalizing the effects that actions have on the agents’ moral quality, because they take into account the effects that actions have on the moral quality of other people and organizations, i.e., the total effects of the agents’ actions. Virtue ethics is thus able to explain the type of voluntary behavior that here is attributed to CSR, and it does so from within the action itself: the agent must be ethical and practice the moral virtues because that is the best way to achieve the goals of her actions, not just in an isolated decision, but over the course of a lifetime, and not as an isolated person, but as a member of a community.

Conversely, the theories in the individualistic tradition – those that limit corporate responsibility to shareholder value maximization, or those that emphasize “enlightened self-interest”, social contracts, or some contractualist variants of stakeholder theory – are incapable of offering good reasons to “be ethical”, precisely because they lack a suitable structure of human action. And as the dominant ethical theories have these bases, it is not surprising that most of the CSR programs undertaken by companies fit with the conception of CSR as a passive response by companies to social demands, or as an active commitment by companies to transform the society in which they operate, without any mention of the ethical transformation of people and organizations. Or, alternatively, as a dual conception, which sets the economic dimension of business (profits) in opposition to its social dimension (responsibility).

This way of understanding the decision process in companies and the role of ethics in corporate governance helps us define the concept of corporate social responsibility. In the context of our discussion, a person is responsible if she is capable of making better decisions, because she has the means (the moral virtues) to take into account all the effects of her actions, on herself and on others. And the criterion for determining whether she is responsible or not will ultimately be the quality of her decisions as a manager, over time.

Then, a company can be efficient, that is, profitable; and at the same time be an attractive place to work, one that is capable of developing people, despite being demanding (or rather, because of it); and have an atmosphere in which people develop their moral virtues, which will build trust and unity in the organization; and also, naturally, be a good “corporate citizen”, one that fulfills all its legal, social and environmental duties.

This way of seeing responsibility is consistent with what we said earlier about CSR. It is ethical, but inspired in an ethics developed from within the organization, because it is based on the theory of human action; not as a set of norms or restrictions imposed from outside. It applies
not only to the company, but also to all its stakeholders. Consequently, it is oriented toward creating the kind of society in which the behavior specific to CSR takes root and develops.

This way of presenting CSR has a prospective dimension, which looks at the actions that must be carried out in order to improve decisions and people and is willing to account for those actions; and a retrospective dimension, which accepts the actions and their consequences, also in order to learn and improve – which is entirely characteristic of virtue ethics.

CSR is voluntary, because it is not imposed by any law, but it is normative and self-enforceable: a demand derived from the ethical nature of management action itself. And it must always remain voluntary, because it is not exclusively a matter of getting results, but of helping people to improve as people, and this cannot be achieved by coercive means.

It is ethical, not social: although it listens to stakeholders’ demands, it does not seek to satisfy them directly if this can be expected to lead to negative moral learning. And it is not confined to philanthropy or community action: it does not involve doing anything different from or additional to what companies normally do.

In any case, CSR must not be based on economic motivations; that is, it cannot be conceived as a means of improving the company’s economic profitability (the so-called “business case” for CSR). The basic issue is not how to make a profit without hurting anybody, or even while doing them some good, but how to manage “differently”, with other goals, which include economic efficiency but go much further than that, to satisfy the needs of the stakeholders and provide a service to the society with efficiency, i.e., with profits.

Our exploration of the concept of CSR has given us a rough idea of a basis for CSR that seems much more solid than that of other theories, be they economic (shareholder value maximization), sociological (a response to societal demands or expectations and the call for companies to be “good citizens” in society), or ethical (individualistic ethics, deontological ethics, utilitarianism, social contracts, etc.). In any case, the approach outlined very briefly here is not just a proposal about CSR, but also about the ethics on which it is founded. It goes beyond CSR to embrace a more ambitious organization and action theory.
Mainstream Theories on Normative Corporate Social Responsibility: Analysis from Catholic Social Thought
Domènec Melé

Corporate Social Responsibility (CSR) is a complex field, with many different definitions and approaches. In spite of this variety and complexity, here are some proposals which have become mainstream theories on normative Corporate Social Responsibility. Among them the following stand out:

a) Corporate Social Performance Theory
b) Fiduciary Capitalism Theory
c) Stakeholder Theory
d) Corporate Citizenship Theory

The aim of this paper is both to present the above-mentioned theories with a special emphasis on their philosophical foundations, which frequently remain only implicit, and to analyze these foundations from the Catholic Social Teaching (CST) perspective.

Corporate Social Performance

Corporate Social Performance (CSP) theory has evolved from several previous notions and approaches. In its current form the CSP model includes: (i) principles of corporate social responsibility, expressed on three levels: institutional, organizational and individual; (ii) processes of corporate social responsiveness, and (iii) outcomes of corporate behavior.

The ‘Institutional Principle’ is also called the ‘Principle of Legitimacy’. Basically it states that “Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.” In accordance with the ‘Organizational Principle’ business should adhere to the standards of performance in law and the existing public policy process. The ‘Individual Principle’ is ‘the Principle of Managerial Discretion’. Since managers are moral actors, they are obliged to exercise such discretion, within every domain of corporate social responsibility, within which they have influence in order to promote socially responsible outcomes.

From the very beginning, proponents of this model struggled for a business management respectful of all people, defending human rights and human conditions in the workplace. However, and in spite of the ethical aspect of these goals, many pioneers of CSR literature were reluctant to connect CSR with ethics, maybe due to the dominant ethical relativism of those days or to avoid discussion about what is morally right or wrong. Instead, they preferred to use terms such as ‘values of our society’, ‘social expectation’, ‘performance expectation’, and so forth, instead of ‘ethical duties’ or equivalent expressions.

This approach, in spite of presenting a valuable social concern, presents at least two important limitations from CST perspective: First, it maintains a radical separation between
business, which basically has an economic goal, and social responsibility. The latter is added to protect business from social risks and/or enhance corporate reputation. The rational, basically, is economic rationality. Second, because concern is for social reactions for or against corporations, the normative foundation is not ethics but social expectations.

**Fiduciary Capitalism Theory**

Fiduciary Capitalism Theory of CSR, which leads to shareholder value-oriented management, holds that the only social responsibility of businesses is to make a profit and, in the supreme goal, to increase the company’s economic value for its shareholders. Any social goals that companies could engage would be acceptable only if they contributed to the maximization of shareholder share value. This is the theory that underlies traditional neoclassical economic theory, primarily concerned with shareholder utility maximization.

Now there is a strong trend towards claiming that some CSR enhances profitability. To distinguish profitable CSR from others which are not, the concept of ‘Strategic Corporate Social Responsibility’ (SCSR) has been proposed, which refers to policies, programs and processes which yield “substantial business-related benefits for the firm, in particular by supporting core business activities and thus contributing to the firm’s effectiveness in accomplishing its mission.” From this perspective, there is an “ideal” level of CSR determinable by cost-benefit analysis and depending on several factors. This requires a careful calculation of the optimal level of social output in each situation for maximizing shareholder value.

This theory contains several philosophical assumptions, some of which present reservations from the CST perspective. Human beings are seen as individuals with desires, preferences and individual rights. Society is no more than the sum of the individuals and the good of the society is understood only as the agreement on individual interests. Both concepts disagree with CST.

Private property is considered practically as an absolute right, only limited by a few legal restrictions to avoid abuses. CST, while accepting the right of private propriety, does consider the social function of property.

This theory also assumes that a corporation is an ‘artificial person’, that is to say, a creation of the law, which establishes duties and rights for the corporation. Links among those who form a company are reduced to ‘a nexus of contracts’. Contrastingly, the view of the firm in the CST is that it is a community of people.

This theory accepts as a matter of fact democracy, market economy and liberties included in economic activity, such as freedom of contract, freedom of association, freedom for starting up a business, for hiring labor, for choosing products and for trading. This is consistent with CST. However, what is not so acceptable is the assumption. Also included in this theory, that business is a private and autonomous activity only restricted by the regulations of the government, with no other responsibility than to make a profit and create wealth. This mono-functional view leads to the rejection of responsibilities for consequences of business activities.

Shareholder value theory neither denies dignity and the human rights of workers nor recognizes it, while under CSR, human rights are regarded as the innate rights of every person.

**Stakeholder Theory**
Stakeholder Theory takes into account individuals or groups with a ‘stake’ in or claim on the company. In a very general sense, stakeholders are groups and individuals who benefit from or are harmed by corporate actions, such as employees, shareholders, costumers, suppliers and local communities, and maybe others groups.

Stakeholder theory maintains that in every company management has a moral duty in order to protect the corporation as a whole and, connected with this aim, the legitimate interests of all stakeholders: customers, suppliers, owners, employees and local communities. Consequently, the corporation ought to be managed for the benefit of its stakeholders and to ensure the firm’s survival. The decision-making structure is based on the discretion of the top management and corporate governance, and frequently it is stated such governance should include stakeholder representatives.

Stakeholders are identified by their interests in the affairs of the corporation and it is assumed that “the interests of all stakeholders have intrinsic value” The firm is seen as an ‘abstract entity’ where these interests converge. An entity made up by different individuals or groups with interests in the affairs of the corporation. In other words, a corporation is considered as a constellation of cooperative and competitive interests possessing an intrinsic value. The stakeholder theory basically shares the same convictions as the shareholder theory regarding democracy and market economy principles. However, in other ways they are quite divergent.

Kantian capitalism and contemporary pluralistic theory of property rights provide philosophical foundations for shareholder theory. Several authors, accepting the basic stakeholder framework, have used different ethical theories to elaborate different approaches to the stakeholder theory, including fair contracts theory, feminist ethics, integrative social contract theory, and others.

Stakeholder theory rightly takes into consideration stakeholder rights and their legitimate interests and not only what is strictly required by law. Consequently, the managerial duties are seen as wider than management fiduciary duties to the shareholders, although it is questionable that management has fiduciary duties to every stakeholder.

The consideration of property rights fits better with justice than the shareholder value theory and it is respectful of human dignity and rights. However, several criticisms have been made of this theory, which are discussed in the extended paper. From the CST perspective can be objected several points of Stakeholder Theory, including, reductionism in the vision of man, business and society, and the pluralistic set of ethical theories which stakeholder theory admits, which is not in accordance with the Catholic moral tradition.

**Corporate Citizenship**

For decades, business leaders have been involving their companies in philanthropic activities and donations to the local community. This has been understood as an expression of good corporate citizenship. However, since the 1990s and even earlier, this concept has gone beyond the traditional meaning. Today, the concept of corporate citizenship is attracting increasing interest and frequently used as the equivalent of corporate social responsibility. Frequently, the language of corporate citizenship appears even wider, reflecting “a pro-active, responsible behavior in business and in dealing with all constituents and with respect to communities, society and the natural environment.”

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From an economic perspective, it is emphasized that corporate citizenship activities avoid risks, enhance corporate reputation and hence long-term financial performance. Under certain conditions, citizenship programs can help globalizing companies neutralize their lack of involvement in a host country by strengthening community ties and by enhancing their reputation with potential local employees, customers and regulators.

The term ‘citizenship’, taken from political science, is at the core of the ‘corporate citizenship’ notion. The notion of citizen evokes individual duties and rights within a political community. However, it also contains the more general idea of being part of a community. In the Aristotelian tradition, business firms are seen as an integral part of the society and for this reason they ought to contribute to the common good of such society, first of all to the community in which they operate, as ‘a good citizen’. In this tradition, the key concept is ‘participation’ rather than individual rights, as occurs in the current liberal state.

Business organizations are vehicles for manifesting human creativity. They permit the creation of surplus value, allowing people and societies to do more with resources. The interests of the firm and their actions span multiple locales and cannot be completely captured in contracts. Each firm is seen as a participant in a network of stakeholder relationships. Because business firms can be considered as citizens, although of a secondary status to individuals, they have derivative or weaker rights and duties.

This theory needs further development in order to become more robust and overcome some current concerns and criticisms. However, this theory, in my opinion, has certain potential and can lead to a CSR approach more in accordance of CST than the previous theories.
Maximizing Shareholder Value in the Good Company

Robert T. Miller

A persistent tension exists in Catholic Social Doctrine (CSD) concerning the proper ends of business organizations and thus the purposes that corporate managers ought pursue. On the one hand, “[a] business’ objective must be met in economic terms and according to economic criteria” (Compendium § 338), which seems to mean that managers should maximize shareholder value. On the other hand, “[b]usiness owners and management must not limit themselves to taking into account only the economic objectives of the company [and] the criteria of economic efficiency…. It is also their precise duty to respect concretely the human dignity of those who work within the company” (Id. § 344), of customers, vendors, creditors, and persons who live in communities in which the business operates. This seems to mean that managers should sometimes promote the interests of such persons at the expense of shareholders. The question is thus how the ends of maximizing shareholder value and benefiting other corporate constituencies interrelate, i.e., how managers ought to balance the interests of one group against those of others. In attempting to answer this question, I begin from the working assumption that, in a good company, managers correctly balance the maximization of shareholder value and the interests of other corporate constituencies. I then consider, in light of the moral philosophy of St. Thomas, what it means to say that a company is a good company. I then return to the issue of how maximizing shareholder value ought be balanced against other corporate ends, and I argue that managers may pursue such ends only to the extent that actions undertaken for such ends are ultimately ordered to maximizing shareholder value. This conclusion establishes an intelligible relationship among the various corporate ends, gives primacy to the end of maximizing shareholder value, and nevertheless still allows managers wide latitude to treat employees and other corporate constituencies generously.

I. “Good” as an Attributive Adjective Applied to Companies

Following the account St. Thomas gives of goodness in Summa Theologiae Ia.5.1-6, as such account is restated and developed by Peter Geach and Alasdair MacIntyre, one important use of the predicate “good” is as an attributive adjective in phrases such as “a good lawyer,” “a good clock,” or, in general, “a good F,” where F stands for some noun. In attributive uses of “good,” a precondition for the proper use of the adjective is that there be associated with the noun in question, either generally or in the specific context at issue, some end that the things of which the noun is predicated are expected to fulfill. For example, if the noun is one that, like “lawyer,” names a social role, then the end will be the end for which such role exists within a larger social context, e.g., to provide advice about the law, to litigate on behalf of clients, etc. If the noun is one that, like “clock,” names an artifact, the end will be the purpose that people characteristically have in mind in wanting artifacts of the relevant kind, e.g., to tell the time. In such a case, a good thing of its kind is one that fulfills well the end associated with the noun; that is, a good F is an F that fulfills well the purpose associated with Fs. When there is no end commonly associated with a noun F, the phrase “a good F” is meaningless, e.g., “a good fork in the road.” Note that, as the end varies, so too does the meaning of “good” as an attributive adjective. A beach good for enjoying sand and surf might not be good for landing amphibious assault troops on, and one and the same person might be a good accountant, a bad golfer, and a merely so-so bridge player.
Further, such uses of “good” are generally non-moral. That is, in saying that something is a good one of its kind, we make no specifically moral judgments about it or anything else. It makes perfect sense, for example, to say that someone is a “good assassin,” meaning someone who always kills those whom he is hired to kill and does so without being caught, for such, presumably, is the end that people characteristically have in mind when they want an assassin; in saying this, we do not express moral approval for assassins or assassinations. In the moral philosophy of St. Thomas, morality is founded on one special application of the attributive adjective “good”—its use in describing human beings, a “good human being” being one who fulfills the final end for human beings. In such systems, the final end for human beings arises naturally from human nature in that human nature is a well-adapted means for the final end and not for other ends, and so this end is objectively determined for human beings in a way that all other ends are not.

Assuming this analysis of the attributive use of the predicate “good” is correct, saying that a company is a good company means that the company fulfills the end associated with companies generally. Now a company, unlike a human being, is not a natural thing, and so a company has no natural end arising independent of human purposes. A company, in fact, is a kind of artifact—an abstract artifact, for companies exist only in the contemplation of the law, but an artifact all the same. Hence, a company can have no end apart from the purposes of actual human beings. A good company is thus one that fulfills the end that people characteristically have in mind in forming companies. In the case of companies, we must thus consider the purposes typically had in mind by those responsible for forming such companies, i.e., incorporators, founders and shareholders. A company will be “good” qua company, therefore, if it fulfills the purposes such people in fact typically have in mind. Although people may form companies for any number of idiosyncratic reasons, as a matter of empirical fact, the vast majority of companies are founded in order to increase the wealth of those founding them, i.e., to maximize shareholder value; certainly, with publicly traded corporations, the only purpose that can reasonably be attributed to the ever-changing mass of individuals who invest in such companies is the maximization of shareholder value. Hence, a “good” company is one that maximizes shareholder value. When CSD “recognizes the proper role of profit as the first indicator that a business is functioning well” (Compendium § 340), it ought be understood in this sense, because for a thing to function well and to be a good one of its kind are, in the semantic analysis of the attributive use of “good” given above, co-extensive.

II. Moral Concerns of CSD and Other Constituencies

Of course, it is not immediately clear that a company good in the attributive sense explained above is morally good. That is, it is not immediately clear that, by maximizing shareholder value, the company’s actions are properly directed to the final end of human nature. For, although a company may fulfill the purpose typical of those who form and invest in companies, since human purposes are good or bad depending on their relation to the final end for human nature, a company’s fulfilling its purpose does not guarantee the moral goodness of its doing so. As noted above, the attributive use of “good,” except as predicated of human beings qua human beings, is non-moral. If maximizing shareholder value is an end incompatible with the final end for human beings in the way that, say, the genocidal extermination of racial minorities is, then a company could be a good company, even though its actions were uniformly morally bad.
But, in fact, maximizing shareholder value is an end compatible with the final end of human nature. For, since human beings are not only rational beings but also animals, their well-being requires the continuing physical well-being of their animal nature, and this requires an abundance of goods and services, i.e., wealth. Hence, actions seeking to produce and acquire wealth are capable of being ordered to the final end, and since wealth can be produced and acquired much more efficiently when human beings band together, the formation of organizations to deliver to their founders increased wealth is likewise an action capable of being ordered to the final end. In fact, maximizing value is even a constitutive part (albeit a small such part) of the final end of human nature. This is what CSD means in teaching, “Businesses should be characterized by their capacity to serve the common good of society through the production of useful goods and services” (Compendium § 338).

But although human beings’ banding together to produce and acquire wealth is an end compatible with the final end of human nature, it does not follow that any action whatsoever that is ordered to the end of maximizing value is moral; that would be to treat the end of the company as the final end of human nature. Rather, an action may serve one end but be destructive of a more comprehensive end of which the subordinate end served is constitutive. Hence, not every action that maximizes shareholder value is licit. In particular, a human organization formed for a morally licit purpose—whether playing chess, advancing human knowledge, or, as in this case, increasing the wealth of its members—will act licitly in fulfilling that purpose only if its actions are otherwise moral, i.e., otherwise appropriately ordered to the final end of human nature. Therefore, in pursuing the end of the organization, those in control of a company may do so only in ways compatible with the final end of human nature. In St. Thomas’s moral theory, this means that their actions (and thus the actions attributable to the company) must be actions that (a) by their natures, are capable of being ordered as means to the final end, and (b) in the circumstances in which they are undertaken, are in fact ordered to the final end. The first condition excludes actions incapable of being ordered to the final end, such as lying, fraud, and theft, even though, in some circumstances, such actions could be ordered to the end of maximizing shareholder value. Notice that this condition is wholly negative in the sense that prohibits to companies and their managers certain actions (i.e., ones similarly forbidden to everyone else), but it does not positively require any particular actions.

The second condition presents more complex problems. In St. Thomas’s moral theory generally, this condition requires that the agent’s action, even when it is the kind of action that is capable of being ordered as a means to the final end, in fact be so ordered in the totality of the actual circumstances. Giving alms, for example, is an action that can be ordered to the final end, but one ought not be giving arms while a man lies in the street bleeding to death; one should render first-aid first and give alms later. Just as the first condition, which prohibits to companies, as to all others, actions incapable of being ordered to the final end, so too this condition prohibits to companies, as to all others, actions that, in the circumstances, are not in fact ordered to the final end. Thus far, this condition, like the first, is purely negative in that it too merely prohibits certain actions and positively requires none.

For St. Thomas, any moral requirement of positive action arises because, in the circumstances, the agent has available to him one action that is uniquely well-ordered to the final end in such circumstances, such as helping the bleeding man in the street when there is no more pressing business at hand. If there be an action uniquely well-ordered to the final end in the given
circumstances, then there is a positive obligation to act, and it makes sense to say that the agent ought have performed the action in those circumstances; but when there is in the circumstances no action uniquely well-ordered to the final end, then the agent retains a large degree of freedom choosing among an indeterminately large number of actions each capable of being ordered to the final end and each, in the circumstances, in fact ordered to that end.

Therefore, if there are moral obligations of companies *qua* companies, these obligations must arise from the circumstance that the company is an organization formed to maximize shareholder value. That is, such an obligation would arise because this circumstance makes some action available to the company uniquely well-ordered to the final end. Other than obligations that the company and the individuals involved in it may have assumed by agreement or by operation of law in creating the company, it is very hard to see what these special obligations might be, for it is very hard to see how these circumstances, regardless of all others that might obtain, could support the conclusion that some action is uniquely well-ordered to the final end. On the contrary, it seems very likely that circumstances beyond the company’s being a company will be relevant in determining whether there are any actions available to it that are uniquely well-ordered to the final end. It thus seems that, although companies have all the same moral obligations that natural persons do, they do not, *qua* companies, have additional moral obligations. If all this is right, then a company has no moral obligations over and above those that a similarly situated individual would have. That is, the company is bound only by moral norms of general applicability.

III. Maximizing Shareholder Value and Benefiting Other Constituencies

I began by assuming that a good company would balance the interests of shareholders and other corporate constituencies correctly, and I have argued that a good company is one in which corporate managers act for the purpose and with the effect of maximizing shareholder value, subject only to moral norms of general applicability and to any special obligations arising by agreement or by operation of law in the formation or governance of the company. I return now to the problem of explaining how, from the point of view of CSD, corporate managers ought to balance the shareholders’ interest in maximizing shareholder value with the interests of other corporate constituencies.

The Thomistic moral analysis I have supplied suggests an answer. In particular, there is a wide range of actions that a company might take that, in purpose and effect, directly benefit corporate constituencies other than shareholders but that are ultimately ordered to the maximization of shareholder value. For example, generous salaries and benefit programs for employees can attract and retain productive employees, donations to charitable organizations can generate goodwill for the company, and exemplary fair-dealing with costumers can build customer loyalty. Corporate managers may and should engage in such actions, if they sincerely believe that these actions will ultimately tend to maximize shareholder value. The CSD teaching is thus a reminder that the economic good of the company is importantly related to how it treats members of other corporate constituencies, and very often companies ought to act to benefit these constituencies directly, for such benefits ultimately redound to the economic benefit of shareholders.
In this way, many corporate actions directly benefiting corporate constituencies other than shareholders become permissible or even obligatory in appropriate circumstances, i.e., when they are rationally ordered to the company’s end of maximizing shareholder value. It is true that this conclusion puts some strict limits on what corporate managers may do. They may not, for example, engage in actions that benefit a corporate constituency other than shareholders or persons unrelated to the company (e.g., by distributing corporate assets to the poor), if doing so is not ultimately ordered to the benefit of shareholders. But this is as it should be, if there is to be some intelligible limit on such actions and if the role of managers as fiduciaries for shareholders is to be respected.

IV. Conclusion

Any doctrine that provides that, in making a decision, a decisionmaker should consider various different interests or balance various different ends ought to specify how such interests are related. If it does not, the decisionmaker retains almost complete freedom of action, for by giving more weight, first to one end, then to another, the decisionmaker can justify virtually any decision as being consistent with the doctrine. CSD must, therefore, present an intelligible explanation of how the interests of shareholders and other constituencies interrelate. I have here argued for such an explanation, beginning from the assumption that in a good company, these interests are pursued in their proper interrelation, and then analyzing what it means to say a company is good. The result was that a good company is one that acts with the purpose and effect of maximizing shareholder value, subject to moral norms of general applicability. This entails that corporate managers may act for the benefit of corporate constituencies only when doing so is ultimately ordered to the end of the company, the maximization of shareholder value. This explanation establishes a definite relationship among the various corporate ends CSD mentions, gives a justified primacy in the operations of the company to the creation of value, but allows managers wide scope to treat members of other corporate constituencies generously and humanely.
Moral Identity, Subsidiarity and the Good Company

Robert K. Vischer

The sanctity of conscience is central to America’s understanding of individual liberty. But its centrality is not without cost, for our one-dimensional conception of conscience has spawned a one-dimensional understanding of individual liberty. It is as though conscience became inalterably defined in public discourse through its particular invocation by the United States Supreme Court sixty years ago, when the state of West Virginia sought to compel students to pledge allegiance to the flag. “If there is any fixed star in our constitutional constellation,” Justice Jackson wrote for the Court in West Virginia Board of Education v. Barnette, “it is that no official, high or petty, can prescribe what shall be orthodox in politics, nationalism, religion, or other matters of opinion or force citizens to confess by word or act their faith therein.” At stake was nothing less than the Court’s duty to preserve “freedom of conscience to the full.”

As noble and necessary as this sentiment is, it is of limited relevance. When state power is arrayed against the individual, foreclosing dissent or coercing assent to the majority’s ideals, Barnette’s unstated premise, that conscience is a self-constructed and internalized belief that can be exercised in isolation by its holder, is a helpful tool of analysis. So too is the extensive exploration of the boundaries of conscience in the military draft cases. But in many of today’s public-square battles implicating an individual’s deeply held moral beliefs, the individual-versus-state paradigm in inapposite. Increasingly, the individual claiming conscience is opposed not by state power, but by the conscience-driven claims of other individuals or non-state entities. Take these recent examples from the headlines:

- Pharmacists suing their employers after being fired for refusing to dispense contraceptives;
- Customers suing Wal-Mart to force the chain to carry the morning-after pill;
- An elementary school teacher suing his school district based on a right to expose his students to a Christian-centered view of American history;
- Employees suing the Salvation Army for making religion part of the hiring and retention criteria;
- Universities, acting on behalf of students, revoking recognition of Christian student groups that limit membership to Christians.

In these and other cases, a right of conscience seems to be invoked as a sort of trump card on behalf of the individual’s stated objectives against whatever institution happens to block the path. A casual observer of America’s cultural and legal landscapes may wonder whether the right of conscience is morphing from a bulwark against government encroachment into a universally applicable and unfettered right to individual autonomy.
There is a dimension to conscience that is discernible from the term’s earliest usage, but which has been lost amid the individualist clamor of American “rights talk.” It is the relational dimension of conscience – i.e., the notion that the dictates of conscience are defined, articulated, and lived out in relationship with others. Conscience is shaped externally; our moral convictions have sources, and our sense of self comes into relief through interaction with others. As such, it is artificial to view conscience as a freestanding individual construct. It might be expressed and defended by the individual, but its substance and real-world implications are relational by their very nature.

Reclaiming this relational dimension can help bring a depth and nuance to conscience currently lacking from our public discourse, with significant implications for our understanding of prudently ordered relationships among the state, the individual, and the organizations standing between them, particularly in matters of religious liberty. Subsidiarity’s promise – localized problem-solving and the empowerment of the communities closest to a given social need – is premised on an understanding of autonomy beyond that of the individual. Recognizing these dynamics of conscience need not denigrate the individual’s primacy, but aim to honor that primacy by facilitating the relationships that make the individual’s conscience possible. Put simply, if our society is to facilitate an authentic and robust liberty of conscience, it cannot reflexively favor individual autonomy against group authority; it must also work to cultivate the spaces in which individuals come together to live out the shared dictates of conscience.

Conscience’s individualist strand has been evident from the concept’s origins. Cicero memorably captured its essence with his cry that “my own conscience counts for more with me than the verdict of all other people.” And our law sensibly privileges Cicero’s position, often siding with the individual’s conscience when it is subject to coercion by “the verdict of all other people” in the form of state action. But today’s use of conscience has expanded beyond the boundaries of Cicero’s expression in two ways: first, conscience is invoked not just as defensive bulwark that allows a person’s conscience to count more than society’s judgment for that person, but potentially as an offensive weapon that effectively imposes the individual’s judgment on the surrounding community. Second, conscience is privileged not just against state action (i.e., “the verdict of all other people”), but against group action by non-state actors (i.e., the verdicts of some other people).

This expanded sway of individual conscience is reflected in the lawsuit brought by customers against Wal-Mart to force the chain to carry the morning-after pill. As one of the plaintiffs explained, “a patient, when he goes to [get] the medication, expects to be able to get that medication.” Both components of the individualist trend – the offensive use of conscience and its use against non-state groups – are on display: The plaintiff expected not simply to be protected against any state effort to prohibit the sale or use of the morning-after pill, but to be assured of access to the pill at any pharmacy of her choosing, including those operated by organizations that may have a different view of the pill’s moral status.

This paper seeks to establish the relational dimension of conscience and explain the broad implications that this dimension has for our understanding of corporations and their role in society. The headline-grabbing litigation battles are encompassed within those implications, but
they are not the whole story. The paper begins by identifying four characteristics of conscience that, taken together, establish the centrality of human relationship to individual conscience:

First, conscience requires action. Conscience is not just belief, passively held by the individual. It is knowledge applied to conduct, an act. It is important to note what is lost if our conception of conscience slides into the privatized sphere of belief. If our focus is only on belief, conscience has very little to do with personal integrity, which requires a unity of action and belief. And conscience-as-belief soon stops resembling conscience at all. As David Richards explains, erecting a wall between belief and action “shrivels conscience itself when conscientious belief cannot shape the experiences of our lives.”

Protecting conscience-as-action is an essential component of ensuring that individuals’ lives can unfold in narrative form. The moral coherence on which a personal narrative is built requires an ability to integrate the various strands of life into a relatively seamless story. Discerning and maintaining the path of integration is not a passive endeavor – it is not simply what a person believes about what is happening to her. Rather, it must be prescriptive – it not only captures where we have been, but propels us in a particular direction. Liberty to act on belief – i.e., the exercise of conscience – may bring conflict and condemnation in a society where the dictates of conscience vary so widely. But if conscience lacks an external orientation, it becomes privatized and personal, sliding into irrelevance. When the state closes down avenues by which persons live out their core beliefs – and admittedly, some avenues must be closed if peaceful co-existence is to be possible – there is a cost to the continued vitality of conscience. It is no answer to point out the state’s self-restraint in intruding on the inner sanctum of the mind; conscience cannot easily, or prudently, be separated from action.

Second, conscience requires a claim of truth. If conscience encompasses any desire or preference held by the individual, we’re in danger of broadening the concept to the point of meaninglessness, albeit a meaninglessness with significant societal consequences. Even more significant for purposes of our present inquiry, if conscience is understood as individual preference, its relational dimension becomes even more elusive, as we are not inclined to recognize – much less protect – preference in a way that transcends the individual.

A claim of conscience is not equivalent to a statement of preference. If I prefer chocolate ice cream to vanilla, I am not opining that chocolate is better than vanilla; If I ask for chocolate ice cream as a matter of conscience, I am stating, at a minimum, that eating chocolate ice cream is morally superior to eating vanilla. Conscience inescapably involves a truth claim – not necessarily a universal truth claim (i.e., I am not pronouncing chocolate to be morally superior to vanilla for everyone in the world), but a truth claim nonetheless (i.e., it is morally superior – as an objective matter – for me). Seen in this light, the moral nihilist cannot claim conscience.

As a truth claim, it is important to recognize that a claim of conscience is grounded in some source external to the individual. If a person is led to judge a certain choice as morally wrong, that judgment is possible only against a normative background. Preferences, on the other hand, can be unreflective, simply functions of instinctive taste. Because they are rooted externally, the truth claims embedded in conscience are, to varying extents, relational. It is a mistake to presume that an individual’s claim of conscience does not become relational unless and until it is
opposed by the state. Conscience’s relational dimension is broader and deeper: broader because an individual living out the truth claims of her conscience is supported and/or opposed by entire webs of conscience claims being exercised by members of the surrounding community, and deeper because conscience’s truth claims are relational not just in their lived-out implications, but in their origins.

Third, conscience is constitutive of the self, and the constitution of the self is relational. While much heat is generated in debates over how much of a burden the surrounding society should bear on account of an individual’s conscience, there is no dispute that conscience itself is vital to the modern notion of self. And conscience is not an outgrowth or an attribute of the self; it is seen as a key constitutive element of the self. Seen in this light, it is no wonder that invocations of conscience are framed in such stark individualist terms. As modern society pushes and prods the citizen into an ambitious framework of expectations and obligations, conscience may be the last bulwark of individuality. One’s conscience, as the internal repository of core moral convictions, may be the last bastion of self-identity that actually belongs to the self.

But it is not so simple. The self is not an individualist island in a sea of social norms. The self is inescapably relational. On this point, Charles Taylor’s work is invaluable. Taylor establishes that “[o]ne is a self only among other selves,” as “[a] self can never be described without reference to those who surround it.” Human life is dialogical in that we can only understand ourselves and acquire an identity via languages of self-expression, but we enter into these languages only in exchange with others. Taylor is not speaking of isolated snippets of spoken language, but of normative moral frameworks within which individuals “can determine where they stand on questions of what is good, or worthwhile, or admirable, or of value.” No matter how individualist our moral framework might be, the process of articulating that framework is not – it cannot be – successfully undertaken by the individual in a vacuum. Making sense of ourselves requires looking beyond ourselves. As a constitutive element of self-identity, conscience is relational.

Fourth, conscience promotes relationships. The state’s moral humility – as opposed to moral neutrality or agnosticism – is essential to creating social space in which individuals can join together to live out the dictates of conscience. For persons with moral convictions that are not predominant in the surrounding society, it is obvious why the state’s self-restraint is key. But even where the moral convictions are not unpopular, a morally assertive state can crowd out non-state actors and associations from the pursuit of shared purposes, not so much by deliberate intent, but by rendering such action superfluous. Civil society – along with the consciences that drive individuals to participate in its flourishing – requires space that, in Taylor’s words, “will open us to our moral sources, to release their force in our lives.”

The balance of this paper examines whether for-profit corporations may properly be considered venues for the communal expression and implementation of conscience, evaluating the capacity of corporations to carve out moral identities as marketplace actors that diverge from the norms embraced by the broader society. As a marketplace actor, the corporation is a moral agent with the ability to exercise a robust institutional conscience. In order to realize the corporation’s potential for serving as a venue for the communal exercise of individual
constituents’ moral convictions, we must transcend competing conceptions of the corporation as either a profit-maximizing amoral entity or a public actor bound to reflect collective moral norms.

Finally, the paper explores the internal environment of the corporation, acknowledging the tension between a corporate community’s constituent-driven moral identity and the exercise of conscience by dissenting community members, particularly employees. I conclude that this tension may actually be productive, not paralyzing. As a community of workers, the corporation must foster an atmosphere in which individual consciences can flourish within the broad limits necessary for maintaining the corporation’s moral agency. The ongoing process of articulating those limits has the potential to promote both a robust institutional conscience and a more carefully crafted environment for employees’ own exercise of conscience.
OUTSOURCING: THE CASE FOR RESIDUAL OBLIGATIONS

Albino Barrera, O.P.

I. Economic-ethical linkages

This paper approaches the issue of offshore outsourcing by first examining the economics of the practice and then assessing its resulting ethical implications. Given the limited space available, I will deal only with some of these economic-ethical linkages, namely: the place of reciprocity and mutual advantage in trade, the market’s unintended redistribution of burdens and benefits due to price adjustments, the shifting cost of labor protection, the question of a uniform global code of labor standards, the potency of trade in alleviating poverty, and the preconditions of job security.

First, industrialized nations have long championed liberalization in the markets for manufactures, high-end services, and capital—areas in which they clearly enjoy a comparative advantage. By curtailing overseas outsourcing, these nations do not live up to the two principles of consistency and mutual advantage (reciprocity). One cannot be selective in subscribing to rules of international trade only when they are in one’s own interest.

Second, offshore outsourcing is a much more complicated ethical question of balancing equally strong claims between competing stakeholders, namely: workers and local communities at risk in the outsourcing countries, on the one hand, versus the laborers and local communities in the poor, host/recipient nations and the shareholders and consumers in the developed countries, on the other hand.

Third, the costs of offshore outsourcing borne by displaced workers are heavy, their reintegration into economic life is uncertain, and they may never regain the same economic welfare they had prior to the loss of their employment. We have to seriously ask ourselves whether it is right to simply leave economic agents to deal with particularly severe adverse pecuniary externalities on their own.

Fourth, offshore outsourcing is a potent vehicle for poverty alleviation because of its enormous positive externalities of job creation and technology transfer in poor nations. Moreover, by integrating impoverished populations into the global marketplace, industrialized nations, in effect, prevent the further marginalization of these vulnerable groups. Two questions arise in this regard: (1) Is there, in fact, an obligation to engage in this business practice? (2) Can a case be made for outsourcing on the basis of the obligation to be efficient for the sake of future generations?

Fifth, in order to avert or at least discourage a race to the bottom, many have proposed uniform, global labor and environmental standards as a condition of international trade. Is there an obligation to require such as a condition of offshore outsourcing? Unfortunately, mandating a uniform code of environmental and work conditions is not a straightforward ethical exercise. Is such harmonization a paternalistic, undue interference in local communities’ and sovereign nations’ preferences or is it a necessary safeguard to delimit an impersonal, amoral market from
using human beings as means rather than treating them as ends in themselves? Should we impose labor standards, or should we simply let the market take its course and rely on people to demand these norms for themselves in due time after they have satisfied their other, more pressing needs as economic development unfolds? Should we simply allow people to make their own choices with respect to labor and environmental standards given that people are presumed to know better than anybody else what is in their own best interest, or is this allowing them to fall prey to economic coercion and exploitation?

Sixth, firms and workers should already start internalizing today the cost of a future, expected lay-off as part of the normal course of the product life cycle. This includes setting aside money, time, and effort for continuing education and training to hone and further develop human capital. This is consistent with the principle of subsidiarity in which people are supposed to take responsibility for their own well-being, to the extent possible.

Seventh, notwithstanding the efficacy of international trade (including offshore outsourcing) in raising people out of poverty in the Third World, do the developed nations have a primary obligation to their own citizens first? The duty to one’s own citizens first must be satisfied within the larger set of obligations as a member of the global community of nations. This responsibility to one’s own citizens first can be satisfied not necessarily through curtailing international trade (or outsourcing) but by better preparing their citizens and themselves collectively as a nation to move ever higher up the ladder of comparative advantage.

II. Catholic social thought

Catholic social thought (CST) has much to offer on this issue from its treasury of philosophical and theological resources. It provides much more specific guidelines on some of the more difficult, indeterminate ethical issues raised in the previous section. Let us revisit each of the aforesaid economic-ethical linkages.

A. Selective subscription to the rules of international trade

Just like philosophical ethics, CST calls for fairness in international relations. As early as the mid-1960s, Paul VI had already raised concerns regarding the fairness of the rules of international trade in his encyclical Populorum Progressio. The urgency of living up to the requirements of commutative justice goes beyond the reciprocity and fairness called for under justice as mutual advantage; it is solidarity that animates the concern for fairness. We are motivated to treat each other with fairness and not take advantage of one another because we are actively and genuinely concerned for the welfare of others. Consequently, trade is not viewed as an occasion to get as much as we can for ourselves even at the expense of our trading partners, but as a cooperative venture together as a family.

B. Adverse pecuniary externalities

One of the issues which philosophical ethics is unable to resolve unequivocally is the question of whether or not there is an obligation to partially reverse the redistribution of burdens and benefits across market participants caused by price adjustments in the normal of course of market operations. This is not even to mention the more difficult question of the extent and duration during which winners compensate losers.
CST would unambiguously call for attending to the unavoidable adverse pecuniary externalities of market exchange. This is founded on the biblical principle of restoration that is vividly laid out in the Old Testament. Given the space constraint, I will only outline the key points of the argument. As part of the Covenant, the Hebrews understood that they were morally obligated (1) to provide loans (grain or money) to their fellow Hebrews in need, (2) to provide these loans without charging any interest at all unlike the usual practice of their time, (3) to write off these debts after six years, (4) to take into their households fellow Hebrews who had fallen on hard times as tenants or as hired hands but not as slaves, (5) to release after six years of service all those who are held in bondage, and (6) to return ancestral land to their original owners during the Jubilee year. A common underlying principle tying these prescriptions of the Law together was the need to restore fellow Hebrews who had fallen prey to the chance and contingencies of socioeconomic life. Note that the goal was not merely to provide a hand-out or a stop-gap measure to temporarily relieve distress. The aim was to restore Hebrews as free, landholding households that were then able to take their rightful place in the nation Israel and contribute their share in sustaining the nation.

Applied to our own era and following the spirit of this biblical principle of restoration, we cannot leave people to deal with the harsh consequences of economic chance and contingencies on their own. Just like the Hebrews, we are obligated to provide assistance, not merely out of our surplus but out of our substance, so that our brothers and sisters may be restored in their ability to participate in economic life. This unambiguous position is a major difference between CST and philosophical ethics.

C. Increasingly heavier burdens on the unskilled, under-educated, and the middle-aged

Just like philosophical ethics, CST calls for assistance for the segments of society that are particularly vulnerable, such as the unskilled, the under-educated, and the aged, who may be increasingly unable to keep up with the requisite changes of a very fluid economy. Two principles are particularly helpful: primacy of labor and the preferential option for the poor. The primacy of labor clearly lays out the arguments for why every person is deserving of meaningful and gainful employment opportunities. As a community, we have a collective obligation to work toward securing those conditions that provide meaningful employment for all, to the extent possible. The preferential option for the poor is also relevant for this particular dimension of the issue of outsourcing because it calls for even greater assistance to be accorded to people who are clearly unable to fend for themselves. Both of these principles add weight to the duties we individually and collectively owe to members of our community who have been marginalized as a result of an increasingly demanding, globalized marketplace.

D. Race to the bottom

Philosophical ethics is unable to conclusively adjudicate the clashing claims between the freedom called for under unfettered market operations versus the extra-market harmonization of labor and environmental standards to forestall the race to the bottom. CST would have little difficulty weighing this case using its principles of human dignity, the common good, and subsidiarity. A non-negotiable premise for CST is the centrality of the human dignity that must be affirmed in every person. Such respect for human dignity is possible only within the nurturing womb of the common good. Consequently, there are certain boundaries that should not be crossed in our treatment of one another.
Freedom of action in unfettered market operations is not a license for inhumane and abusive working conditions. In fact, the latter are reflective of our lack of authentic freedom—the freedom that empowers us to wholeheartedly embrace our responsibilities toward each other (Gaudium et Spes). We are held responsible for each other’s well-being, just like the Hebrews, and as a consequence, we enjoy certain claims (rights) that we can then present to each other and to the community for satisfaction. In other words, market operations are bounded by constraints that must be respected—human rights in particular. Furthermore, the extra-market harmonization of labor standards may not necessarily be paternalistic or be a violation of economic freedom on the basis of a proper understanding of the principle of subsidiarity. Recall that this principle invites people to do what they are capable of accomplishing themselves instead of passing on the responsibility to a higher body. However, higher bodies are obligated to step in and provide assistance to the individual or lower bodies if the latter are no longer able to perform these functions for the common good. Thus, in our present case, the imposition of a global core set of labor standards is not a violation of individual economic freedoms but is, in fact, an affirmation of the common good and human dignity as required by the principle of subsidiarity. A race to the bottom, if true, is not permissible in CST’s vision of a properly functioning economy.

E. Trade a potent vehicle for poverty alleviation

Again, CST has a longstanding position on the use of trade as a means of addressing global poverty. In his encyclical Populorum Progression, Paul VI had already spelled out the heavy obligations of developed countries in exercising proper stewardship of the signal gifts they have received. In particular, such stewardship calls for the use of such wealth and power on behalf of the poor and the powerless. Note Paul VI’s impassioned appeal to the First World to assist poor nations struggling to improve the lives of their citizenry. The entire spectrum of CST principles points to the importance of and the need to use trade as a vehicle for alleviating the plight of the destitute. It is a mandate of the preferential option for the poor. Those who have the means to do good are bound by the principles of subsidiarity, socialization, and solidarity to actually accomplish such good. Moreover, it is living up to the vision of the principle of the universal destination of the goods of the earth in which the fruits of the earth are put at the service of all regardless of how titles of ownership are assigned. Furthermore, it is consistent with the principle of the primacy of labor which calls for the provision of work as a means of sharing in the creative act of God. And, of course, using trade as means of poverty alleviation is an act that seeks to promote human dignity and the common good. Indeed, CST has much to contribute in shedding light on the value of offshore outsourcing, and trade for that matter, for the poor of the world.

F. Internalizing future adjustment cost

Just like philosophical ethics, CST calls on people to internalize today the adjustment costs of an expected future job/career change. This is consistent with the principle of subsidiarity in which people are expected to take responsibility for their own well-being, to the extent possible. Moreover, the need to constantly upgrade one’s human capital through continuing education and training is consistent with CST’s call for integral human development, that is, the never-ending process of improving ourselves in a holistic manner—body, mind, and spirit. In fact, preparing for such expected future job/career changes is not merely an option, but it is a duty as part of the stewardship of the personal gifts entrusted to us by God.
In sum, offshore outsourcing is an issue that the Church must address since it is a constitutive part of the process of “de-industrialization” in the ordinary course of nations’ economic growth and development. It is a contentious problem that will only get more complicated and affect more people in the face of globalization. CST has much to contribute in the public square of ideas in this regard.

III. Summary

Many critics have dismissed offshore outsourcing as an unconscionable practice that puts in jeopardy the livelihood of hapless displaced workers, and all because of the need to bolster firms’ profit margins. It is, in fact, a much more complex moral question with multiple stakeholders. On the one hand, the outsourcing firms’ constituencies (shareholders, consumers, and core employees) reap enormous benefits by having these firms become leaner and more cost-competitive in the global marketplace. They are better positioned to create even more high-paying employment at home. This is not to mention the real assistance afforded to workers in the poor, recipient countries in terms of job creation, technology transfer, and skills acquisition. On the other hand, current workers, many of whom have long served these firms, will have to be laid-off. This problem is particularly acute in the case of aging industries. Indeed, offshore outsourcing is a much more complicated ethical issue because of its manifold stakeholders, all of whom bear a shared responsibility not only for ensuring job security, but equally important, for letting international trade be the potent tool that it can be for poverty alleviation.

Who has responsibility for ensuring job security? And for whom? Everybody has a legitimate claim to job security, and because of this, they each share in the obligation of effecting such job security both for themselves and for one another.
Global Compensation Justice for Educated Young Adults
Dr. Shirley J. Roels

Introduction

“There are about seventy thousand accounting grads in India each year...many of whom go to work for local Indian firms starting at $100 a month. With the help of high-speed communications, stringent training, and standardized forms, these young Indians can fairly rapidly be converted into basic Western accountants at a fraction of the cost. Some of the Indian accounting firms even go about marketing themselves to American firms through teleconferencing and skip the travel. Concluded Boomer [L. Gary Boomer, a CPA and CEO of Boomer Consulting in Manhattan, Kansas], ‘The accounting profession is currently in transformation. Those who get caught in the past and resist change will be forced deeper into commoditization. Those who can create value through leadership, relationships and creativity will transform the industry, as well as strengthen relationships with their existing clients.’...If you are an American...anything that can be digitized can be outsourced to either the smartest or the cheapest producer, or both.”

If Gary Boomer, as Tom Friedman quotes him, is right about the accounting profession, the world is getting even flatter as the twenty-first century proceeds. Many occupations for employees with more knowledge and skill, are only at the beginning of a global revolution in their structures, locations, job-holders, skill requirements and compensation.

To date the focus for shifting occupations has been on the plight of the blue-collar worker. Change in the U.S. manufacturing economy has been a real problem over the past several years. According to Carlos Gutierrez, now U.S. Secretary of Commerce, U.S. manufacturing companies shed 2.7 million jobs from 2000 through 2004. That saga is ongoing as the world continues to adjust to a future of decentralized global manufacturing employment in which the terms “outsourcing, offshoring, and supply-chaining” have become common parlance. This new industrial revolution is still in process as trading and producing partners form new devertical partnerships in which globally dispersed businesses contract with each other for engineering design, raw materials, component parts, partial assembly and final production. These changes have been perceived primarily as those that affect workers with a high school education or less.

While the results of these changes are substantial, a good portion of the more educated global population has believed itself to be immune from significant effects of such change. Yet a new wave of change will create upheaval in labor markets that have previously seen themselves as untouched. These are the labor markets for the college educated.

What is shifting the dynamics for the college educated? There are three principal forces driving the location of work for these young professionals in the years ahead. First,
global communication and technology systems now allow knowledge work, the province of most college graduates, to be done in many regions of the world. As the opening quote notes, accounting spreadsheets with a company’s income statement and balance sheets are easily transferable to another location anywhere in the globe. Knowledge work is typically based on information; and information can be created and recreated in many different locations because of global systems. Thus, the transfer of information is fluid and in that regard the world is indeed much flatter in the Internet and Microsoft age than in any prior generation.

Second, the growing number of global youth seeking a college education is driving the total global population of those with advanced education as well as the quality of global college-educated young people. For example, by 2003 in Mexico, 134,894 applicants competed for 33,000 undergraduate admission spots, up from 88,584 applicants just two years before that. Other countries are having similar experiences with exponential growth in those seeking college educations; and these countries are responding with dramatic improvements in the quality and extent of their educational systems. The supply of college-educated labor is rising quickly in many countries, particularly in China, Indian and Eastern Europe. In many of these countries the labor market of college graduates is expanding at 5% per year versus 1% in the developed and traditional western world.

Third, while the supply of college graduates is being reallocated globally, many college graduates in developing countries are hungry for good work and willing to work long hours at relatively low wages, often at about one-tenth of the wage in developed nations for their peers.

When one combined these three forces, the opportunity to distribute knowledge work across the globe, the rising supply of college graduates in developing nations, and the difference in wage expectations among those graduates, changes will occur in the labor markets for college educated young professionals. Within the next decade the sources of college educated personnel and their compensation may be substantially reallocated on a global scale.

The Global Economy and its Labor Force Dynamics

What one projects to change with this convergence of more fluid locations for work, supply shifts of college educated graduates, and regionally varied compensation depends on one’s assumptions about the nature of the overall global economy.

For some, if the global economy is a fixed pool of resources and outputs to be reallocated among the world’s populace, the results for college graduates in the western world will be devastating. In a worse case scenario wages will tumble rapidly and employment security, even for those with a good education, will disappear. Such results would significantly undermine the abilities of the young to finance their higher education, try out professional opportunities, obtain graduate or professional degrees, buy homes,
marry, have and provide for children and expect a reasonable period of retirement. The pattern of western social expectations and sense of social contract would be severely disrupted for this portion of the workforce, as is already the case for many with lower levels of education.

In a best case scenario perhaps such young adults will continue to have living wages with a few less I-Pods and somewhat older autos. Yet in such a scenario it is still likely that the educated young would still perceive themselves as substantially less well off. As David Myers, a psychologist who researches wealth and well-being, has often observed, the correlation of income and happiness is quite weak. However, the state of western material satisfaction is dependent on upward social comparison with others. If western youth perceived that their position relative to other global groups was deteriorating, the probability of strain and unhappiness is significant. This could ignite new round of materialist striving or protectionist economic choices.

The alternative hope and economists’ belief is that the pie of global economic resources will continue to grow in light of the theory of comparative economic advantage. In such a scenario, with greater specialization in the allocation of global economic resources, growth provides more opportunity for everyone in the globe. Thus global employment for the young college-educated professional is not part of a zero-sum game in which there is one fixed pie that must be more broadly shared with the whole world. Instead creativity and opportunity will drive forward aggregate growth for all, creating more instead of less opportunity.

Still, regardless of which economic scenario one believes, it is likely that a period of significant economic transition is ahead for the college-educated young in the developed world as well as the majority world. If young adults are content with their current modes of operation, labor markets will continue to change around them. Thus, even assuming global economic growth, there will be significant changes in the tasks of young professionals, their global locations and the ongoing allocation even of a growing pool of global compensation. While economic growth will provide for greater aggregate global wealth, the problem will not be the total pool of wealth but its distribution.

Once families, schools and communities have invested in their young, employers and governments are the two primary distributors of such labor-related wealth. Governments are one important source of policies and frameworks related to compensation. They typically mandate the forms in which and the levels at which minimal direct and indirect compensation must be provided. Since the extent of government policies related to employee compensation varies from one country to another, the influence of governments related to compensation decisions will vary with the countries of operation and is beyond the scope of this paper.

But governments are only one voice in setting compensation policy, typically stipulating minimum levels of reward. Beyond government policy, there are several important questions that the good global company must consider in its ongoing decisions about sources of employees and their compensation. These questions involve not only wages
but also employer-provided indirect benefits that are part of most compensation structures. Thus, in addition to direct wages, there are many questions related to the provision of employer-funded health and pension benefits as well as personal leave. The goal is that these decisions be informed by Christian social teachings in relationship to the global economy and its labor force dynamics.

**Christian frameworks, global compensation strategies and young professionals**

Christian frameworks should take several factors into account. These include the nature of Christian economic stewardship, economic responsibilities for the poor, the inherent dignity of the worker and promotion of the common good across the global community of people at work. In each of these areas Catholic social teaching provides underlying assumptions on which employers should build their compensation choices.

In addition, as an extension of Catholic social teaching and in light of corporate social responsibility, the good company should determine the following in regards to the compensation of young educated professionals:

1. What constitutes a livable wage for these young adult employees in a globalized economy?
2. What constitutes compensation equity for entry level professionals when laws and expectations about compensation vary widely among different countries of operation? Should employers typically choose countries with lower expectations in this regard?
3. What constitutes compensation equity within a given company between executives and the starting compensation of most entry level professionals?
4. How might compensation frameworks, including base wages, bonuses, profit sharing and employee ownership be structured to provide appropriate faith-based values related to global work?
5. What strategies might the good company use to change the nature of the compensation conversation with its employees, shareholders and communities of work regarding the compensation of young professionals?

Human work is part of the original creation mandate. It is inherent in being human. Yet sin has introduced significant struggles regarding human motivation, productivity and solidarity among fellow workers. There will be struggles ahead as the global supply of and demand for educated workers continues to shift in relationship to the global costs of their labor. As a global Christian communion, the Catholic Christian church is best positioned to address the justice and equity of these pending changes from a faith-based perspective.
KEEPING GOOD COMPANY
The Leavening Influence of Morally Ordered Lives
by Gil Bailie

This paper constitutes a minority report, but not at all in the sense of positioning itself in opposition to the laudable central concerns of this conference, with which its author is in enthusiastic agreement. Rather it is a minority report in the sense that it takes special cognizance of the caveat implicit in Cardinal Christoph Schönborn’s observation that: “There are whole pastoral programs, with game plans and models of action and guidelines, that do not mention the name of Christ even once.” Cardinal Schönborn’s reproach was made with greater specificity by Hans Urs von Balthasar in something he wrote just a few years after the last Council: “The Church since the Council has to a large extent put off her mystical characteristics; she has become a Church of permanent conversations, organizations, advisory commissions, congresses, synods, commissions, academies, parties, pressure groups, functions, structures and restructurings, sociological experiments, statistics…”

The experienced and faithful organizers of this conference run less risk of falling under von Balthasar’s censure than I do of falling under Cardinal Schönborn’s, for my own offering makes hardly an explicit reference to Christ. It does seem appropriate, however, to complement the unquestioned value and priority of our conferences’ technical, scientific, socio-economic and moral analyses with a few that hearken, as this one does, to last Council’s reminder as to the indispensable role of personal holiness and moral integrity in the Christian mission to the world.

The Enlightenment attempt to perpetuate under rational or utilitarian auspices the moral acuities born of Christian conversion, while setting aside as expendable the religious formation of moral actors and the eschatological horizon that gives their actions weight and ultimate consequence, has failed. At the heart of the Christian moral revolution is an Event which, sacramentally mediated, has the effect of converting the heart into a moral gyroscope, thereby endowing the person with a degree of social autonomy and ethical perspicacity without which moral codes and engraved principles fail for lack of a living instantiation. As necessary as codified laws and less formally promulgated operating procedures are, their success will largely depend on the presence among those they regulate of men and women in whose hearts is inscribed the ethical orientation which the law can at best pre-scribe and approximate. (Jeremiah 31:33-34)

Codes rushed into place in an effort to make up for the decline in the moral ambience of a given corporate or business culture exist to make up for the unreliability of the moral actors involved. There is nothing wrong with this makeshift. It is quite inevitable, but it must be recognized for it is. Like a stimulant used to maintain alertness in someone wearied by lack of sleep, this expedient can become a substitute for that which it seeks to be an expedient, further depleting resources it is incapable of restoring. Codes can substitute for, and eventually replace, the virtues they attempt to codify. The task of reviving the virtues underlying these codes cannot be fully accomplished by appeals to virtue, however, for virtues are not self-legitimizing or self-authenticating. They arise from, and depend on, a vision of moral order and personal responsibility which is unavoidably religious in nature. Moreover if these virtues are to be effective in the practical order, they will need to be inculcated and not just intellectually justified and morally admonished. We will be able to share the rational and moral fruits of our faith, argues Benedict XVI, “only if we live our own inheritance vigorously and purely. This will make its inherent power of persuasion visible and effective in society as a whole.”
The Church’s contribution to greater justice and equity in the political and economic arenas of life should begin with what the Church does best and what political and corporate institutions are powerless to do: namely, to expand by way of sacramental and catechetical formation the ethical horizon of men and women who work in the secular world. As necessary as it is to restructure institutions or broaden political and economic calculations with an eye to a more just and equitable impact on the world, no moral pedagogy, however scrupulous, can replicate the effect of the religious/ethical formation of the moral actor himself or contribute as much over time to the ethical esprit de corps of the particular institutions within which he or she works.

Today, Pelagian optimism is on the wane, but vestiges of it survive in the hope that conversionless moral progress might be brought about by alternations in political, social, or economic structures. Culture matters, as do its moral codes, but few societies can afford the constabulary force required to keep order, much less raise the moral level of the society, in the absence of the kind of ethical interiority that Christian conversion is capable of inspiring. The West’s historical over-familiarity with Christianity has lulled it into underestimating how much the culture’s moral fabric and the social harmony it facilitates depend on the leavening influence of a resident Christianity. This is true as well for those subsidiary cultural institutions engaged in commerce, education, and the maintenance of the social infrastructure.

Moral interiority, though a by-product of conversion that is Christianity’s principle concern, has long done a good deal of the cultural work that, as Christianity is marginalized, is today falling to secular institutions which are both considerably less equipped for the task and, perhaps for that reason, largely inattentive to it. To try to make up in legislative details or general principles the moral rigor that is receding with the progressive marginalization of Christianity is to put the Pauline principle that sin takes advantage of the law to the sort of test it has never failed. Nor is it likely to fail when the organizational structures being retrofitted with loftier aspirations are economic ones which have been traditionally and, some argue, inherently ordered toward more morally modest material goals. As the Compendium of the Social Doctrines of the Church puts it: “The economy, in fact, whether on a scientific or practical level, has not been entrusted with the purpose of fulfilling man and of bringing about proper human coexistence. Its task, rather, is partial: the production, distribution and consumption of material goods and services.”

Much of the discussion of corporate responsibility presupposes the operation of some form of enlightened self-interest, and the idea does indeed have economic validity and practical applicability in the business environment. But the form which is the template for Christianity’s sacramental and catechetical formation is the cross, not the rising tide that lifts all boats. One needn’t gainsay the market’s moral bedrock – that the common good can be served by the pursuit of private ends – to recognize that such a supposition is impotent to inspire the principled selflessness and expanded sense of solidarity which the Compendium repeatedly invokes. If the standard concern of the burgeoning field of corporate social responsibility is the promulgation of a business ethos and codes of conduct conforming to it, the Christian’s concern is the transformation from within a corporate culture by awakening in those working within it a more edifying sense of purpose and a richer and more sustainable sense of personal gratification that accompanies it.

In, Deus Caritas Est, Benedict XVI offered an overview of the Catholic contribution to a just social order. Inasmuch as the classic Two-Cities distinction – Church and State – is an analogue for the relationship between the Church and Market, Pope Benedict’s observations are
pertinent to the theme of “The Good Company” conference. “Building a just social and civil order,” writes Benedict, is “a political task,” and, as such, it “cannot be the Church’s immediate responsibility.” The Church’s task in this regard is rather the “ethical formation” of the lay professionals working in the secular institutions. Acknowledging that “the formation of just structures is not directly the duty of the Church,” Benedict nevertheless insisted that the Church bears responsibility for “the reawakening of those moral forces without which just structures are neither established nor prove effective in the long run.”

René Girard’s mimetic anthropology throws considerable light on the power of mimetic influence – for good or ill – in human affairs. If one bad apple spoils the bunch – a proverbial, if unsophisticated, recognition of what Girard calls mimetic desire – so one person of principle catechetically formed to see his or her professional responsibilities in the context of a larger and loftier set of moral obligations can influence both colleagues and the organizational culture in which they collaborate in subtle but important ways. The mimetic power of such witnesses is both less coercive and more likely to lead to interior and lasting change in others than is the adoption of external procedures and codes of conduct, however essential it may be to put such codes and procedures in place.

More than a century before René Girard provided anthropological corroboration, Newman recognized this subtle but potent mimetic power, going so far as to credit it with the astonishing and otherwise inexplicable spread of Christianity in the ancient world. The cultural structures of that ancient world were hardly more congenial to Christian penetration than are the corporate structures of today’s global market, and what Girard and Newman, from their respective disciplines, have to say about the power of personal influence applies to the latter no less than the former.

Whether it be Christ himself or his disciple, writes Newman, “it is not a mere set of opinions that he has to promulgate, which may lodge on the surface of the mind; but he is to be an instrument in changing (as Scripture speaks) the heart …” What Newman says of the Christian truth generally is true of the moral imperatives that derive from it. It is propagated, he writes, “not by books, not by argument, nor by temporal power,” but by personal influence. It is all but impossible, he insists, “to estimate the moral power which a single individual, trained to practise what he teaches, may acquire in his own circle, in the course of years.”

So preaching or proclaiming or codifying the truth, however necessary, unavoidable and admirable these things are, is ancillary to the primary task of exemplification. The personal influence of someone who aspires to “live the truth in love” (Ephesians 4:15) may scandalize the rebellious – non serviam – spirit, but it does so only because of its inherent irresistibility. (Wisdom 2)

Speaking in what we would today see as a Balthasarian tone, Newman lauded “the natural beauty and majesty of virtue, which is more or less felt by all but the most abandoned.” “Men persuade themselves,” he says, “with little difficulty, to scoff at principles, to ridicule books, to make sport of the names of good men; but they cannot bear their presence: it is holiness embodied in personal form, which they cannot steadily confront and bear down…”

“One little deed, done against natural inclination for God’s sake, though in itself of a conceding or passive character, to brook an insult, to face a danger, or to resign an advantage, has in it a power outbalancing all the dust and chaff of mere profession,” Newman declares. The spiritual bedrock of the Second Vatican Council is its universal call to holiness. Underlying that call is the realization that holiness is at least the principal, and arguably the sole, method of Christianizing the world and civilizing and morally improving its custodians and institutions.
Nor should the mimetic effect of an exemplary model be underestimated or thought to have only imperceptible effects. “The attraction, exerted by unconscious holiness,” writes Newman, “is of an urgent and irresistible nature; it persuades the weak, the timid, the wavering, and the inquiring; it draws forth the affection and loyalty of all who are in a measure like-minded; and over the thoughtless or perverse multitude it exercises a sovereign compulsory sway, bidding them fear and keep silence …”

When we say that a person or a situation is “dramatically” altered, we tend simply to mean that the alteration in question has been a significant one. We might allow the adverb to carry more of its etymological and metaphorical weight, however, for dramatic changes often come about as moral actors come to see their acts as embedded in a grander and nobler drama, into which they draw others by the integrity with which they make tangible the conjunction of freedom and obedience to which the world is habitually blind but to which their mission and their moral lives testify. Catechetical formation situates one’s life in the drama of salvation history, what von Balthasar calls the theo-drama, the backdrop against which a Christian can discover his or her mission, identity, and freedom. Whatever ancillary benefits it might confer, the Church’s primary contribution to a more equitable and just economic order is to in-form the faithful engaged in business and commerce of their role as Christians in the theo-drama of which von Balthasar has written so eloquently.

Once the underlying religious vision has become sufficiently attenuated, ethical codes are simply the moral fashion of the moment, and adherence to their strictures easily becomes at best perfunctory and at worst cynical. In addition to whatever code of ethics might be promulgated and enforced, if it is to be more than a constraint whose limits and loopholes are to be quickly explored, it must be situated within a cultural context which includes what the social philosopher Lee Harris has called a visceral code, that is, the set of moral presuppositions and the inherently religious horizon in which they are necessarily embedded. The West, as Harris assessed it, has undergone a “collective metastasis at the primary level of the visceral code,” the effect of which is incalculable. After such a moral transformation, Harris writes, “men and women not only think and argue differently; they feel and respond differently. They are now ashamed of what once made them proud and proud of what once shamed them.” When situated against this sort of massive moral and cultural shift, there is scant prospect of rectifying the situation by relying primarily on juridical codes for which there is no predisposition in the visceral code.

Harris recognizes what Girard has so extensively explored and explicated, namely the role of mimesis in both cultural life and the life of each person. Harris uses Aristotle’s term telos to refer to a culture’s ostensible “goal” of human fulfillment. If the goal the culture holds up as worthy of the aspiration of its participants is to fulfill its role, it must exist “in the form of an actual individual who has fulfilled this ambition in an exemplary way.”

Though there is nothing in Harris’ analysis to indicate any familiarity with Girard, von Balthasar or Newman, his diagnosis brings him to a similar conclusion. Harris argues for the importance of “shining examples,” exemplars of virtue and rectitude who function as living witnesses for those with whom they come into contact. “To follow in the footsteps of a living person is a radically different process from attempting to conform one’s day-to-day life according to an abstract principle or maxim,” Harris writes. A world devoid of shining examples or a world so crowded with glittering but fundamentally vacuous ones, Harris argues, is a spiritual wasteland.

In a world where shining examples are no longer pointed out, what is there to aspire to? You must change yourself, as Rilke’s poem tells us, but into what? A
tolerant person? A wise person? These are abstractions. They permit us to declare ourselves “tolerant” without further ado, just as we can equally well declare ourselves “caring” or “loving” or “open-minded”…. Indeed, we can even display bumper stickers that assure both us and the world of our deep devotion to world peace and the brotherhood of man.

“The Church since the Council has to a large extent put off her mystical characteristics,” wrote Hans Urs von Balthasar, “she has become a Church of permanent conversations, organizations, advisory commissions, congresses, synods, commissions, academies, parties, pressure groups, functions, structures and restructurings, sociological experiments, statistics…”

Corresponding, *mutatis mutandis*, to the excesses of scholasticism in centuries past, this over accommodation to the sociology of worldly organization and the attendant loss of sacramental sensibilities and ecclesial self-confidence has made the Church more irrelevant even as she seems to have satisfied more and more of the worldly demands for relevance. The Church’s increased familiarity with worldly operating principles has contributed to a blurring of the distinction between the activity of the Church as Church and her role as moral pedagogue to her sons and daughters living in worldly situations and working in secular institutions.

The market being the roughly democratic economic institution that corresponds to the roughly democratic political institutions of Western cultures, and insights into the role of the Church vis-à-vis the state bear on the related problem of the Church’s role with regard to the market. The Church’s task is to bear witness to “the moral truth.” In order to do so, wrote then-Cardinal Joseph Ratzinger, “This truth must be vigorous within the Church, and it must form men, for only then it will have the power to convince others and to be a force working like a leaven for all of society.”

In addition to trying to encourage economic institutions to be more just and equitable – the important concern with which this conference is rightly and admirably concerned – the Church needs to attend more thoughtfully to the old-fashion business of religious formation with an eye to its moral repercussions in social life, including the life of contemporary business institutions.

“What we most need at this moment in history are men who make God visible in this world through their enlightened and lived faith,” wrote then-Cardinal Joseph Ratzinger. “God returns among men only through men who are touched by God.” My allusions above to eschatological, ethical and religious horizons are gathered together and brought to bear on the concerns of this conference is something that pope Benedict has written:

If globalization in technology and economy is not accompanied by a new openness to an awareness of the God to whom we will all render an account, then it will end in catastrophe. This is the great responsibility imposed on us Christians today.

This statement is so sweeping that it is difficult to read it without automatically and unconsciously toning it down. In fact, however, two things are being clearly juxtaposed: a recognition of the fact that we will all one day have to account for our lives before God, on one hand, and the unleashing of technological and economic power that will end in catastrophe, on the other. “No reduction of Christianity to something merely spiritual or to ethics is enough to arouse people,” Fr. Julián Carrón of Communion and Liberation. “That is exactly why we need men who witness to this fullness for the whole of life. We need witnesses.”
Corporate Corruption: Deceit, Religion and the “Good Company”
Reyes Calderón, Jose Luis Álvarez and Ignacio Ferrero

From an ethical perspective, this paper attempts to clarify some aspects around the role placed by corporations on corruption, which is specially confuse in global markets. Corruption is a multidimensional and systemic phenomenon involving various types of practices, contexts, conditions and actors which maintain non trivial relationships. Its complexity has hindered to define business standard rules of conduct and procedures to monitoring corrupt practices, creating some black holes united to the “special conditions of some parts of the world”. The confusion is made evident on the two major facets of the private sector incentives: a) because poor governance and corruption can have a detrimental effect on affaires, corporation is a potential partner in the fight against corruption rejecting the extortion by venal officials; b) because corruption revokes competence, regulations and quality’s standards, corruption can provide a strong incentive for extraordinary profits. This paper exposes that a systemic framework is required to assure a consistent treatment of the topic in an holistic perspective and of whichever country, suggesting ethics —specially business ethics— as nexus among sciences to holism. Supporting that understanding ethical aspects of corruption is the most task confronting corruption today, this article plead for behavioural ethics rather change ethics as principal element to carry forward a comprehensive and holistic framework. Deceit and religious are employed as examples.

LARGE SUMMARY

Corruption is not a new phenomenon. Centuries old, its intensity seems to be always in increase. However, we live in a society and era in which corruption results an disagreeable neighboring. Shaken by economic, political and judicial scandals, most of the Western economies have finally recognized corruption as a serious social pathology which must be unavoidably combated. In the last decades, national governments, mass media, NGOs, researchers and the most relevant international institutions —such as the Organisation for Economic Co-operation and Development (OEDC), the Organization of American State, the World Bank, the International Chamber of Commerce (ICC) or the International Monetary Fund— have included corruption as prominent item on their agendas.

Answering to social clamor, during the last decades, the topic has largely been visited and revisited from political science, economics, sociology, ethics or law, producing a growing academic literature whose conclusions have often been applied to reality.

Since the revelation of corporate scandals among Western companies and the magnitude of the phenomenon, corruption issues have gained prominence also among business community. According to the World bank (2003) “corrupted business practices worldwide could reach one trillion US dollars in terms of impact on the global economy”. Transparency International’ Global Corrupt Barometer (2004) supports a 3,4 corruption index for corporation on a scale where 5 indicates maximum corruption, emphasized that the corporate sector, interestingly enough, is the most corrupt institution in countries like Hong Kong, Netherlands, Norway or Singapore. Because that, the role of the private sector in corruption has become a hot issue in developed democracies being in of academic fashion today. The
spirit of the 1996 report on extortion and bribery of the International Chamber of Commerce, which largely revisited the weak 1977 report, evidences the overall purpose is a private sector entering into force in the fifth against corruption.

Articles have been written and published, discourses have been read, working groups have been created, strategies have been designed and convections against corruption have been signed (even, someone has essayed to fulfil). However, and though some success has been achieved, the phenomenon has never been totally eradicated. Unfortunately, corruption remains a disease without theoretical nor practical vaccine.

To understand why corruption —defined here as the misuse of discretionary power over resources’ allocation for private gain— is perceived to be endemic in the world we must mention its complexity and, therefore, the inability of simple strategies against.

In the 70 and 80 decades, numerous researchers supposed that liberal and democratic “aseptic” Capitalism would create everywhere rapid and sustained economic growth reducing corruption. However, strategies for transition from central planning to market economies after 1989 have not performed as well as analysts expected (Svejnar, 2002). On the opposite, corruption is growingly alluded as a salient problem in soviet satellites economies and Russia itself.

Some authors (Cf. Heimann, 2003) have maintained the original hypothesis, explaining the failures across the cumulative character of the reforms. They suggest that the implementation of democratic institutions, free markets and other social efforts against corruption often make little progress for long until suddenly a “tipping point” is reached and, then, the problem declines rapidly. It is true that, in a phase of transition, the accumulation of little changes may make a huge difference. Democratic institutions needs a maturation and the transition from socialistic to capitalistic practices may be implemented in stages. However, in our opinion, the success in not guaranteed. While in Eastern economies strategies for transition failed, the efficient markets of the theoretically immunized countries were shaken by corrupt scandals (Lindgreen, 2004). Corruption is not a rule-less environmental problem. Stable and clear market rules reduces, but do not eliminate, both bribe’s supply and demand.

Corruption is not the result of a simple aggregation of adverse circumstances (i.e. institutional weakness, market distortions and poor cultural and social forces); it goes so far. Evidence exists; corruption afflicts democracies and advanced industrialized economies as well as dictatorships and developing countries. It prefers imperfect markets but it refuses to be dead and buried in “free market’s ambient”. That occidental and oriental traditions have an area in common with corruption results obvious after Enron’s scandal. The level of corruption is similar in Italy, Kuwait and Costa Rica, three very different countries. United Kingdom and Canada anticipate in transparency to United States of America. Despite its very bad extreme poverty’s data, Chile advances Spain and France.

The OEDC recognizes that reducing corruption requires more than criminalizing the act of bribing a foreign official, business themselves must play a role. But what? In spite of many empirical studies, there are not clear hypotheses or conclusions about how firms are impacted by complex corrupt practices and how they must respond to complexity. Actually, literature is polarized in defining the role played by corporation in corruption, coexisting two —the active (actor) and passive (victim)— contradictory discourses.
Fundamentally framed on political and criminal law reasoning, part of the literature presents corporation as a direct and active actor. Corporation would be an predatory and self-interested agent who contributes to illegal activities by active adaptation mechanisms. Being a powerful agent, it is able to bribing and pressuring government officials or encouraging and facilitating corrupt behavior of bureaucrats. Therefore, those discussions understand corruption as an opportunity and a source of profit for firms, which may induce non competitive practices or the reduction of the products or services quality.

Other discourses, especially those corresponding to an economic approach, give also a picture of corporation as an actor, but being forced to pay a cost of doing business in some imperfect markets having often no exit option. Corporation would be the extorted party and, therefore, the direct victim to the venal officials. Thus, the adaptation mechanism is presented as an obligated answer to environment and corruption is understood as an additional business cost or a new corporate tax.

Victim or executioner? Inside corporate class, the visions are also divided. In an experiment with a group of marketing managers, Fritzscle and Becker (1984) pose the ethical dilemma regarding the payment of bribes as a form to penetrate in the Asian market. They found that, even though 39% of the asked managers tended to reject extortion because paying bribes was viewed as an unethical behavior, 41% of the sample seemed in favor of paying because bribing does not hurt and is an acceptable practice in some countries.

The International Chamber of Commerce supports that business community must reject all forms of extortion and bribery. However, the 1996’s report recognized that “under current conditions in some parts of the world, an effective program against extortion and bribery may have implemented by stages”, being the highest priority the large scale extortion and bribery involving the top political and bureaucratic levels.

Many companies are reluctant to adopt totally those rules. They calibrate the “under current conditions” exception, which is far from simple, or they are afraid its competence employ this reservation to continue pay bribes. In this line, Heimann (2003) show that to curving corruption a broad practical consensus in business community is crucial.

However, to obtain consensus is difficult with the incentive’s polarization: on the one hand, business has a strong long-term incentive to reject venal officials. Corruption affects negatively investment climate, growth and development being detrimental for enterprises. On the other hand, corruption is short-term incentive and opportunity for extraordinary (and some time, legal) profits.

To engage the private sector in the fight against corruption, the World Bank report on governance and anticorruption (2006) propose specifically “working directly with the private sector to introduce ethical corporate practices, encourage them to joint public-private coalitions for reform… and more broadly advocate that integrity is good for business”.

We are in accord that only business ethics may offer possibilities to business community’s consensus and, in this sense, we support that understanding ethical aspects on corruption is the most task confronting corruption analysis today.
However, the state of the knowledge on the ethical corporate practices has not sufficiently advanced.

It is obvious that corruption requires two willing parties to be consummated. Pay a bribe is always a willing and voluntary action because most of the cases corporation may reject the extortion, however, existing very different context, to recognize the moral problems that arise when an extortion is paid and to apply moral reasoning may be confuse.

We argue that ethical considerations would permit to clarify the inherent complexity of business corruption if actions are evaluated regarding congruence.

Corruption is a extremely complex phenomenon which comes in many guises such as bribery (Williams and Beare, 1999), extortion and evasion (Hindriks et al, 1999), fraud, trafficking (Tocker, 2001; Bowles et al, 2000), embezzlement (Peterson and Gibson, 2003), nepotism and cronyism (Prendergast and Topel, 1996). Each corrupt practices presents a peculiar ethical problem, which obligates to judge many circumstances (Argandoña, 1999).

In the corruption topic, the formulation of the ethical principles has underlined the goodness and justice of the exchange mechanism, which permit include the legal, organizational and contextual circumstance. On the opposite, we will argue that corruption is a long-term deficit of alignment.

In the organizational literature, corporation thinks of an ethical problem when there is a conflict of interests whose results can violate its own set of moral principles or values; that is, when the conflict provokes an inner alignment problem. If a corporation pays a bribe to a bureaucrat, corporation itself does not present or suffer apparently an inner alignment problem. The corporation’s agent who acts illegally or unethically is understood to be “serving his principal’s interest,” (Carvajal, 1999; Bandfield, 1975). In spite of the fact that firms may pay official, bureaucrats or high politicians to gain access to market supplies, those actions occur without violation of the firm’s principal-agent contract. The implicit hypothesis is that behavior, attitudes and rules of both corporation and its employees, are congruent so that the corrupt strategy does not create any alignment problem.

Ethical rules for business are imposed by three diverse sources: government (through legal rules), society (through cultural uses) and business itself, through its own —formal or informal— codes of behavior. This last source of rules has traditionally played a major role in determining the firm’s standard for ethical practice (Boatright, 2000). However, two main challenges occasioned by globalization are diminishing its role, promoting an exclusively legal or cultural ethics, which is supported by environmental analysis. From one standpoint, globalization has deepened ethical relativism (Velasques, 2000) and cultural uses from host countries are being employed to justify some doubtful business behavior (Cf. Donaldson, 1996). From another standpoint, it has been observed that globalization diminishes managerial discretion, reducing the role played by the internal codes of behavior (Buller et al, 2000).

Certainly, the existence of cross-national and cross-cultural differences among ethical reasoning processes (Cf. Cullen et al, 2004) represents an unavoidable challenge, specially
due to the cultural dimension of corruption. If the acceptable model of behavior varies within a given nation; if ethical beliefs significantly fluctuate from culture to culture; if there is any dichotomy in ethical attitudes of entrepreneurs and managers; and if many enterprises are unable to capture the moral truth in a corrupt environment, then the possibility of employing ethics as a common thread of interdisciplinarity results doubtful.

The cardinal point is to find a set of universal ethical principles, if it exists. Donaldson and Dunfee (1994) are among those authors who have discussed the possibility of describing universal ethical concerns in business. They have suggested that, beyond the cross-country diversity in cultural factors, there are hypernorms, that is, prescriptions generally accepted by all cultures and organizations, because they “entail principles so fundamental to human existence that they serve as a guide in evaluating lower level moral norms”. Any discordance between behaviour and hypernorms suggests immorality, that is, a behaviour which “is not only devoid of ethical principles or precepts but also positively and actively opposed to what is right or just” (Carroll, 2000:38).

Are there immoral facets in corruption and, specially, in the role played by corporations in corruption? Donaldson and Dunfee (1996) argue that bribery typically violates local norms as well as hypernorms, so that this corrupt practice constitutes an universally unacceptable behaviour. Argandoña (2005) suggests that extortion —openly demanding or soliciting any such payment— is immoral because it forces the company to make a payment that is not included in the terms and conditions attaching to the service, for the exclusive benefit of the official. We share the belief that both paying and demanding bribes violate some of the hypernorms that converge in general ethics —the set of principles and values that govern behavior in accord to a notion of morality—. Nonetheless, we think that links between societal and organizational ethical principles occur in a much primary level, where the inner and outer behaviors of the organization must be firmly anchored. This is the level of truth versus deception, freedom versus restrictions, or justice versus caprice.

The idea can be developed in further detail if we think that, when faced with a corrupt market, corporation is coping with two typical trade-off or dilemma:

1. An external or environmental dilemma: if firm does not pay the bribe, then it risks losing the contract; if it accepts to pay bribes, it breaks law and enters in a potential extortion’ spiral, taking the complex decision without knowing if other companies will refuse or accept to engage in the corruption process.

2. An internal or derived organizational dilemma: if firm pays bribes, the corrupt payoffs help the firm obtain business; because profit and incentives are liked, in the short term, the corrupt payoff benefits both employees and firm. However, in the long term, by paying bribes, employers and employees enter in an ethical ambivalence, which destroys trust.

Through socialization, control and incentives, managers develop internal norms which prevent members of the organization from acting corruptly. With those norms, managers attempt to develop the voluntary acceptance of self-constraint on opportunism, understanding that opportunism —seeking the self-interest with guile and deceit (Williamson, 1975)— damages the future of the firm. Nevertheless, opportunistic actions by employees are facilitated if top management is perceived as being unethical. For instance, after observing any organizational attitudes that tolerate or instigate corrupt behaviors, employees will seek to make sense and justify their own deceit.
If a firm accepts to adapt its ethics to unethical market-entry conditions, it can destroy its internal consistence, creating a dissonance between inward and outward behaviors. Facilitating or authorizing their subordinates' bribery while remaining ignorant of the details, the employer encourages actions in ways that employees would consider immoral in personal and organizational life (Rose-Ackerman, 2002). If, through this dissonant behaviour, the deceit is institutionalized, a harmful effect upon organization has been accepted. Asforth and Anand (2003: 37) defend that when bad apples produce a bad barrel through institutionalization, the barrel itself must be repaired. For the shake of the firm’s long-term existence, deceit must be eliminated. To eliminate the deceit, an anti-bribery policy must be acquired and maintained, resolving the environmental prisoner’s dilemma. Thus, the firm’s outward behavior is voluntarily adapted to the inward ethics, trying to avoid any contagion which could modify its own set of internal norms. (Cf. Hansen and Glinow, 1985).

Ethical principles can help to clarify the complexity of corruption if organizations do not try to build two (inner and outer) insulated ethical compartments, but only a coherent one. They must ask themselves which part of the external corrupt action the firm does not admit for its inner functioning. The answer would represent the basis for a hypernorm to be abided by in all circumstances.

The unethical elements of corruption have exactly the same roots than the element which are rejected in the internal organization of the firm, even if they are not illegal. A robust knowledge of those elements could greatly help the interdisciplinary efforts to grasp the complex nature of corruption. In fact, interdisciplinary studies must be oriented to discover the different facets of those elements. A profound analysis of guile (Williamson, 1985:30), deceit or betrayal of trust (Elangovan and Shapiro, 1998), for instance, would undoubtedly be more far-reaching in their implications for significant improvements in the understanding of - and fight against - corruption than any study of its illegal character.
Concurrent Sessions II/Sessioni simultanee II
Convergence in Divergence of CST and CSR in a Retailer Ethics Committee: A Case Study
Geert Demuijnck
CST, CSR and the Purpose Driven Company
Christine M. Fletcher

This paper examines the philosophical basis of the three models of the corporation: the shareholder, the stakeholder, and what the paper names the purpose driven company. To do this it examines the early works of Peter Drucker. The claim of this paper is that Drucker’s writing on management and the pragmatism of most business people rests on an unacknowledged debt to Catholic Social Teaching, particularly in the understanding of the person.

This claim is made by examining two things: Peter Drucker’s early writing and three models of the company, shareholder, stakeholder and the purpose driven company. The paper examines Drucker’s definition of the purpose of business and the goods of management before turning to companies which exemplify the purpose driven corporation using a modern study of visionary companies by Collins and Portas and the characterization of the Living Company by Arie de Geus.

By drawing out the similarities between Drucker’s vision and its embodiment in the visionary and living company, the paper seeks to show that the purpose driven model of the corporation is based on a vision of the person and society which is closest to Catholic Social Teaching and which contrasts with the vision of the person as homo economicus of the empiricist social science which is the basis for the shareholder and the stakeholder models of the company.

Drucker’s first book, The End of Economic Man published in 1939, linked the failure of the ideologies of capitalism and Marxism to the rise of the fascist and Stalinist powers. His main concern was the survival of human freedom. He stated that the capitalist creed was that the profit motive was the means ‘by which the ideal free and equal society would be automatically realized’ (35).

The concept of man as an “economic animal” is the true symbol of the societies of bourgeois capitalism and of Marxist socialism, which see in the free exercise of man’s economic activity the means toward the realization of their aims. Economic satisfactions alone appear socially important and relevant. (43)

He explains the failures of economics as a science, ‘it can supply no “laws” of economic cause and effect –the criterion of a science’. (44) In the actual economies of Russia and Europe of the 1930s, ‘the teachings of economic science have ceased to correspond to social reality’ (46). The masses no longer accept the economic realm as the supreme realm; especially after the failure of Marxism to realize a free and equal society. And ‘the very essence of Europe [is] that it conceives man as free and equal …With Christianity, freedom and equality became the two basic concept of Europe; they are themselves Europe’ (47).

His second book, The Future of Industrial Man published in 1943, took the argument a step further. He outlined the features of the industrial societies and the problems of power and accountability within them.

If the corporation is the representative social institution and if management is the decisive social power, mass production in big units is the representative social form of our society. (68)

He claimed that modern companies are institutions which embody the social contract theory of ethics (52). He found that the industrial revolution had changed society: a mercantilist
society with its conventions of power and responsibility based on property, primarily land ownership had been overtaken by a revolution which left the holders of true power unaccountable. Drucker rejected the contention of both the orthodox capitalist and the orthodox Marxist that property is socially constitutive.

The original corporations, such as the East India Company, were based on the delegated authority of the political government. The new corporation is independent of the political authority, arising from property rights not as land, but as shares. The modern corporation is thus a political institution; its purpose is the creation of legitimate power in the industrial sphere. It is the social contract theory’s institutional embodiment (52). The shareholders hold sovereignty, but the managers have the power. The managers’ power is unfounded, unjustified, uncontrolled and irresponsible power, even though the men themselves may be, as Drucker claimed most managers were, moral, upright, well-intentioned human beings. (59)

With his starting point of respect for the individual, he investigates work on the assembly line. The employed worker in modern day mass production industry has no social status or function. Being socially disenfranchised, productive work is not enough to solve the social problem of the industrial worker. Free society will endure only if the free government in the political sphere and free rule in socially constituted sphere balance and check each other. Functioning industrial society must give function and status in society to individual members of the industrial system; give social meaning to purposes, acts and desires of individuals. Power must become legitimate rule through fulfilment of a social purpose.

*The Concept of the Corporation*, first published in 1946, was in Drucker’s words ‘the first study of a major institution of this new pluralist society of institutions, in addition to being the first study of the constitution, structure, and internal dynamics of a major business enterprise.’ (ix) The essence of this new institution is the diversity of the knowledge, skills and people brought together and directed by management to produce something new. He retained his viewpoint as a political theorist and saw that the institution of the corporation was an instrument for the organization of human efforts to achieve a common end (20-1).

He identified the corporation’s purpose for existing as making something, at a profit, in order that the organization would continue to exist. Profit is not the purpose of a business activity, but a limiting factor on it. Profit is a measure of performance, an insurance premium against the risk involved in the gambling on the future, and the resource which funds new capital and those unprofitable activities which are social needs.

He identified General Motor’s great strength as their programme of decentralization, where responsibility and freedom to make decisions were pushed out from the central office to the local operating units. The federalism of GM balanced the division’s decision making with strong central support and a top management that focused on strategy. The weakness of GM was labour relations:

For the great majority of the automobile workers, the only meaning of the job is in the pay check, not in anything connected with the work or the product. Work appears as something unnatural, a disagreeable, meaningless and stultifying condition of getting the pay check, devoid of dignity as well as of importance. (179)

He never denied that large organizations would be hierarchical, ‘But also everybody from the boss to the sweeper must be seen as equally necessary to the success of the common enterprise’ (141). In short, he thought the major lesson of the war was ‘the extent to which in
our pre-war economy we let go to waste that most precious of all creative assets, human inventiveness and imagination’ (190).

In 1955 he published *The Practice of Management* which brought together his insights with case studies of companies. He claimed that most businessmen would define a business as ‘An organization to make a profit’ an answer Drucker considered false and irrelevant. Profit is not the explanation, cause or rationale of business behaviour and business decisions, but the test of their validity (32-3). He defined the purpose of business as creating a customer through marketing and innovation. The first duty of business was to survive. The business must therefore operate at a profit and create the next generation of managers. The business must not undermine social cohesion. It must recognise its employees as having membership in a variety of institutions none of which can claim them entirely or alone; and it must give them equal opportunities for advancement on ability and performance. (380).

Drucker’s writing in these four works is consistent with CST. He rejected de Mandevilles’ characterization of capitalism, that ‘private vices become public benefits’.

Drucker believed that corporations must be managed so as to make the public good become the private good of the enterprise (385-6). He saw moral integrity as the most important quality of the individual manager; and proposed tests for business decisions: ‘What would be the public reaction if everyone in industry did the same? What would be the public impact if this behaviour were general business behaviour?’ (380)

Drucker rejected the homo economicus, the construct of economics who moves though life seeking only to satisfy his preferences. In *The Practice of Management* he revealed his philosophical assumptions:

> The human resource—the whole man—is, of all resources entrusted to man, the most productive, the most versatile, the most resourceful. (257)

Drucker’s thought in these early works anticipated the encyclical *Centesimus Annus*:

- it is not possible to understand the human person on the basis of economics alone, nor to define the person simply on the basis of class membership. (§24)

- Whereas at one time the decisive factor of production was the land, and later capital …today the decisive factor is increasingly the person, that is one’s knowledge, especially one’s scientific knowledge, one’s capacity for interrelated and compact organization as well as one’s ability to perceive the needs of others and to satisfy them. (§32)

- Profit is a regulator in the life of a business, but it is not the only one; other human and moral factors must also be considered which in the long term, are at least equally important for the life of a business. (§35)

We have seen that Drucker had a similar emphasis on the person, not understood as economic man, but as a full human being with a material and spiritual side; he also identified knowledge and skill in organisation as the new creator of wealth: ‘modern mass production is not based on raw materials or gadgets but on principles of organization—organization not of machines but of human beings’ (1972, 21). This isn’t surprising given Drucker’s claim that the only basis for freedom is the Christian conception of man’s nature as weak and imperfect but God’s image (1943, 102). Drucker’s vision of the corporation as a hierarchy which values each member, whatever position within that hierarchy they occupy is consonant with
the teaching of CST that the person as the centre of social and economic life. Further, his
description of the purpose of business is creating a customer through innovation and
marketing, and the manager’s skill in organisation as a source of wealth is similar to John
Paul’s:

It is precisely the ability to foresee both the needs of others and combinations of
productive factors most adapted to satisfying those needs that constitutes another
important source of wealth in modern society. (CA §32)

Finally his way of reasoning follows the pattern of CST, placing the individual human in a
network of relationships within society, and in a spiritual realm. Therefore, his conception of
a good company would be consistent with CST.

We can summarize the characteristics of the good company that Drucker identifies:

- It is focused on long term survival
- Profit is not the purpose of the organisation but the measure of its efficiency
- It give primacy to human beings who, as customers, as workers, as knowledge
  workers and as managers, form a human community which will be hierarchical but in
  which each and every person is necessary and valued. It develops leaders within the
  community.
- It recognises that it exists in a web of social relationships with duties to the state, local
  communities, and the intermediary organisations of society.

These four characteristics make up what I am calling the purpose-driven corporation.

All three models of the corporation: shareholder, stakeholder and the purpose driven
corporation rely on the profitability of the business. The three models differ in how the
measure of profit is used. The shareholder model of the corporation describes the good of the
corporation as maximizing shareholder wealth. The stakeholder model describes the good as
creating wealth for the stakeholders (Alford 2001, p 57). Both models see profit as the
purpose of the corporation. They remain in the mindset of classical economics, with
autonomous actors seeking their preferences, and morality consisting of procedural rules of
justice. The failure of both models to produce successful companies that last over long
periods of time reflects their misreading of human beings, and the thin descriptions of human
actions whether as employees, customers, managers, or shareholders.

The purpose-driven corporation describes the good of the organisation in terms of a task
achieved, with profit serving as one measure of corporate health. In contrast to the
shareholder and stakeholder models it has a thicker description of human action. Human
beings are not motivated solely by economic motives. It is described in David Packard’s
words:

I think many people assume, wrongly, that a company exists simply to make money.
While this is an important result of a company’s existence, we have to go deeper
…[my conclusion is that a company is] a group of people [who] get together and
exist as an institution that we call a company so they are able to accomplish
something collectively that they could not accomplish separately. (Collins, 56)

This model of a corporation sees human beings as value-driven, sociable, seekers of meaning.
The model is compared to two characterisations of successful corporations: visionary
companies in *Built to Last: Successful Habits of Visionary Companies* by James C. Collins
and Jerry I Porras and living companies in *The Living Company* by Arie de Geus. (The
details of that comparison are in the full paper.) de Geus has noted how corporate law
enshrines the mercantilist assumption that ownership is power, leaving managerial power ungrounded. Drucker had identified this in 1943.

Drucker’s success in identifying what actually makes business successful in the long term arises from his methodology. He wrote as a political theorist, he understood corporations as subsidiary institutions of the larger society, between the individual, family and the state. Charles Handy, in an article in the Harvard Business Review has caught up with the Drucker of 1943:

> The old language of property and ownership no longer serves us in modern society because it no longer describes what a company really is. …We need a new language to release our thinking, and I suggest that it be the language of polity. A public corporation should not be regarded not as a piece of property, but as a community—although a community created by common purpose rather than by common place. (Handy)

It is unsurprising that Drucker and John Paul II share a vision of the good company. Both men experienced Europe in the 1930s and 1940s. Clearly, Drucker had a mature understanding of Christianity which he brought to his work, though he only made it explicit in very few places.

Drucker, Collin and Porras, and deGeus share a rich anthropology. They recognise how complex the human being is, how many goods are available and attractive, and that individuals will make choices between them that are not predictable. All three give a thicker description of human action than the empiricist social science, and consequently, produce accounts of a good company which is open-ended, because they know human beings capacity for innovation. This thick description of human action is an unacknowledged inheritance from the natural law foundations of Catholic Social Teaching, or more generally, the Judeo-Christian intellectual history of Europe.

This paper claims that most business people within corporations would profess an ethics of pragmatism, the question they are interested in is ‘What works?’ If they are intelligent and diligent managers, they discover quite quickly that their largest problem is getting human beings to behave in a desired way. If they are good pragmatists, they will experiment with techniques of management and examine their assumptions until they produce results that they desire. de Geus recounts this experience as a young man fresh from university:

> The theories back at business school had mentioned labour, but there had been no talk of people. Yet the real world, the refinery, seemed to be full of them. And because the workplace was full of people, it looked suspiciously as if companies were not always rational, calculable and controllable. (26)

Because CST can give an account of human beings which if fuller and closer to reality than most found in the management guides to economic companies, it has much to offer to today’s manager. Much of Drucker’s enduring value as a guide to management arises because he always has worked with a concept of the human being in society, and a human being with a spiritual dimension. When the pragmatists turn to his management books and find that they ‘work’, they are building on the insights of CST. This may be the way to get CST a better hearing in business schools and boardrooms.
Sustainable Economic Development and the World's Poor

Traditional methods of economic development focused on promoting justice and improving the lives of impoverished peoples throughout the world have recently come under scrutiny and much criticism (e.g. Easterly, 2006; Sachs, 2005). One approach to the problems identified by the critics of these programs is the proposal developed by C.K. Prahalad and his colleagues which suggests that large corporations can profit from reformulating their products and services to target "consumers" at the "bottom of the Pyramid." -- the 4 billion people in the world who live on less than $2 per day. As presented in Prahalad's seminal book, The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits, the BOP Proposal further suggests that if these corporations engage this market with a general attitude of respect and an intent to better the lives of the masses of poor at the BOP, then they can contribute to the greater common good while making a profit.

The BOP proposal is a natural complement of the micro-lending and micro-franchise movement started 20 years ago but is different to the extent that it focuses on the engagement of large corporations and on technology as the drivers of the solution to world poverty. Implicit in the proposal is the idea that large corporations are the key to a reformulation of the economic equation at the BOP and the development of a new values based economic system that Prahalad labels "responsive capitalism."

This paper will: first, provide an introduction to the basic ideas included in the BOP proposal and a summary of its current theoretical extensions; second, use catholic social teaching (CST) to critique the BOP proposal and suggest some areas where its implementation should be carefully monitored or modified, and third, discuss the San Lucas Toliman Mission in San Lucas, Toliman, Guatemala which can be viewed as an application of the spirit integrated BOP/CST proposal even though its genesis predates Prahalad's work by 30 years.

The Bottom of the Pyramid Proposal

The BOP proposal is, essentially, that big business can make significant profits by targeting product design, manufacturing, marketing, and distribution systems toward the world's poor and the economic realities that they live within. As presented by Prahalad (2005), this proposal is married to the objective of improving the living conditions and economic realities of this population and developing a new model of values based economic activity that Prahalad labels "responsive capitalism." Consistent with other economic development models that focus on entrepreneurial activity, the BOP proposal suggests that: "new and creative approaches are needed to convert poverty into an opportunity for all concerned." Further, Prahalad asserts that: "The process must start with respect for Bottom of Pyramid consumers as individuals." And that,
"The process of co-creation assumes that consumers [at the bottom of the pyramid] are equally important joint problems solvers."

Significant to the BOP proposal is the identification of the world's poor as a viable economic market and the specification of the characteristics of that market. What are the economic realities that characterize the BOP? They include lack of credit and financial systems, lack of dependable infrastructure including inadequate transportation systems, poor water quality, inadequate waste disposal, undependable electricity, as well as low literacy levels, and the lack of other material comforts (e.g. refrigeration, telephones) that are taken for granted in the developed world. These challenges are balanced by the size of the BOP market and the fact that new technologies can be implemented without competition from pre-existing legacy systems. The adoption of cell phones, for example, has been much more rapid in emerging economies than in the developed world. The new way of thinking about the BOP that Prahalad suggests includes recognizing that there is money in the BOP marketplace because of its size, that distribution channels tailored to the BOP can be viably developed, and that BOP consumers are brand conscious, technologically connected, and ready adopters of new technologies. Further, he suggests that by adopting new financing policies, as well as using micro-packaging and other techniques, large corporations can tap into the BOP market by creating the capacity to consume products and services there which has not existed in the past.

Prahalad's analysis suggests that historically, corporations have mistakenly tried to market "first world" products in third world BOP environments which is why they have had limited success. Prahalad ties this to the dominant logic of the prevailing capitalist system and suggests 12 principles of Product and Service Innovation which are consistent with his model of responsive capitalism. These principles are:

1. Price Performance reinvention - This involves rethinking product design and packaging so that the massive size of the BOP market can be capitalized on even though profit margins per transaction are very small. Examples include financial lending of small amounts of money (micro-credit) and micro franchising of long distance services.
2. The creation "hybrid" advanced products that incorporate high technology.
3. Scalable and Transportable Solutions (products and services). This concept essentially points to the development of products and services that can be rolled out across the globe in many BOP markets at the same time so that economies of scale can be achieved.
4. Innovations must conserve resources (elimination of waste). A large philosophical component of the BOP proposal is the development of products and services that are ecologically friendly and sustainable business practices.
5. Redesign focusing on product functionality (not just form) consistent with economic and social realities at the BOP.
6. Process innovation to recognize the lack of critical infrastructures such as reliable transportation or electrical power. In many cases this means taking advantage of pre-existing social structures such as village groups for collection of products or service delivery. In other cases, it means taking advantage of the large scale and demand in BOP markets to develop economies based on standard processes (e.g. eye surgeries in a special hospital)
7. Deskilling work and product usage. Simply put, this means redesigning the work to fit the talent profile of people in the BOP.

8. Product education strategies that recognize high levels of illiteracy and lack of media access.

9. Product design that recognizes hostile environments. An example would be computers that can function in harsh environments (e.g., high humidity and dust). Interestingly, Prahalad suggests that many products designed for this market might be very desirable in developed economies.

10. Methods of distribution designed for both dispersed rural markets and high dense urban markets.

11. Design of control/use interfaces that is sensitive to the heterogeneity of the BOP consumer base (language, culture, skill level, experience).

12. Design focus on basic platforms which allow for rapid product innovation and flexible adaptation.

Finally, the BOP proposal focuses on building economic system capacities by addressing and trying to resolve existing problems such as corruption and inequities in contracts and pricing between developed and BOP environments. This also means developing new capacities within BOP communities for self-governance and effective economic management.

The BOP proposal has been rapidly embraced and championed by many socially conscious business school programs in the United States including the University of Michigan, University of North Carolina, Dartmouth, and Brigham Young University which have all created "BOP" outreach or service learning programs. In addition, a number of NGO's have adopted the social entrepreneurship philosophies associated with BOP theory and present case studies of the application of the BOP model online. Three examples are the World Resources Institute's Nextbillion.net (http://www.nextbillion.net/), the Oikos Foundation (http://www.oikos-foundation.unisg.ch), and Global Envision (http://www.globalenvision.org/). The latest extension of the BOP philosophy is the creation of the Center for Business as An Agent of World Benefit at Case Western University (http://worldbenefit.cwry.edu) which will be the host of a world wide live and virtual Global Forum in October, 2006 that is being co-sponsored by the Academy of Management and the United Nations Global Compact (http://www.bawbglobalforum.org/).

As presented, the BOP proposal suggests a utopian solution to world poverty with little downside. Is this true when examined through the lens of Catholic Social Teaching? The next section explores this question.

**The BOP Proposal through the lens of Catholic Social Teaching**

At first glance, the ideas incorporated into the BOP model seem congruent with the principles of work, economic development, and management derived from Catholic Social Teaching (CST), however, a more in-depth analysis suggests that, while the BOP model aligns with catholic social teaching in many ways, there are some areas where it does not and, consequently, where we should be cautious about the application of BOP strategies. Illustrative examples include:
The BOP involves a redefinition of the poor as "consumers" that represent a business opportunity and/or as entrepreneurs that are partners in the BOP business proposition. While the proposal calls for recognition and respect of the capacities of individuals within the BOP, the question of which identity is dominant is still open and a cause for concern.

Operationally, the BOP proposal is focused on creating business opportunities and profits for corporations in the developed world. Even though the proposal includes strategies to develop economic capacities in the BOP and proposes solutions to endemic infrastructure problems such as corruption, even though the proposal is accompanied by philosophies consistent with improving the common good and recognizing the dignity of individuals in the BOP, there are still questions about which focus is dominant. In cases of where the common good and profits conflict, which objective will drive decision making? For example, on application of BOP and sustainable business practices suggested by Hart (2005) is for large corporations to divest themselves of strategic business units which produce toxic or environmentally unfriendly products. The result of this strategy is the corporation has a better environmental footprint, however, the offending business unit has not been shut down (the common good alternative) rather, it continues to operate as an independent firm or subsidiary of another company.

Prahalad emphasizes the intention of improving the lives of the poor through the development of win-win strategies. Even so, "deskilling work" is identified as a basic BOP tactic, which, if applied without constraint, could create tension between the BOP strategy and the CST principle of creating meaningful work as critical to human fulfillment.

Finally, Prahalad suggests that BOP solutions must be scalable and transportable which suggests creating products marketable across the globe without significant consideration of the preferences of local BOP communities. This creates the risk that indigenous BOP cultures will be homogenized through extensive BOP market development and that subcultures which form the identity foundation of BOP communities will be lost to a technologically connected world culture. In comparison, another market approach that focuses on the "end of the tail" in a market distribution has been proposed that uses technology to customize products and services to individual and distinct sub-markets characteristic of the global multi-cultural BOP.

**The Mission at San Luis Toliman, Guatemala and Fr. Gregory Schaefer**

The author visited the San Lucas Mission in San Lucas Toliman, Guatemala in March of 2006 with a group of 15 students. The paper will conclude with the story of San Lucas Toliman as an illustration of how economic and community development can be conducted consistent with CST. Fr. Gregory Schaeffer has been the priest at the Mission since 1963 and during his tenure, the Mission has developed a coffee cooperative, a health care center, a land purchase program, a reforestation project, a weaving cooperative, and a women's center. Further, it host up to 2000 volunteers and visitors per year and is a primary center of tourism for the San Lucas Toliman community.
Catholic Social Teaching and the Construction of “Just” Markets
Nicholas Santos, S.J. and Gene R. Laczniak

It is undoubtedly an act of love, the work of mercy by which one responds here and now to a real and impelling need of one’s neighbor, but it is an equally indispensable act of love to strive to organize and structure society so that one’s neighbor will not find himself in poverty, above all when this becomes a situation within which an immense number of people and entire populations must struggle, and when it takes on the proportions of a true worldwide social issue.

(Compendium of the Social Doctrine of the Church, 2004, n. 208)

The present experience of globalization and economic development is tainted with the existence of a considerably large proportion of the world’s population living in poverty. According to the World Bank (2001), of the world’s 6 billion people, 2.8 billion – almost half – live on less than $2 a day, and 1.2 billion – a fifth – live on less than $1 a day. The situation of poverty is not something that is God-willed or inevitable but rather an outcome of human choices. It is, therefore, possible to bring about a change in the situation of poverty by changing such choices. The eradication of poverty has, in fact, become one of the major global concerns today. This is indicated by the first of the UN Millennium goals being to halve world poverty and hunger by the year 2015. A traditional approach towards poverty alleviation has been that of charity or aid. However, as Archbishop Weakland points out, though charity is a necessary Christian virtue, it is not an economic solution to the problem. According to Weakland, the solution must be to help people to participate in the life of society by being able to make their contribution to it. Business corporations can promote such participation by encouraging a spirit of entrepreneurship among the poor as well as seeking ways in which the poor can more actively be engaged in and benefit from the process of economic development. In a sense, then, the role of business corporations in poverty eradication is crucial.

According to Lee Tavis, the elimination of poverty is not just a moral imperative but is now considered a necessary component of sustained development. Companies are beginning to realize that it is in their long-term interest to reduce or eliminate poverty. For instance, the Tomorrow’s Leaders group of the World Business Council for Sustainable Development (WBCSD) in a recent paper acknowledges that the vast numbers of people living in poverty today are potential consumers, employees, and suppliers. Further, the group points out that conventional models may not work well in doing business with impoverished segments and that there is a need to develop new models. In recent years, approaches to reach out to the Bottom of the Pyramid (BOP) market have been gaining currency in academic circles thanks to pioneering efforts by C. K. Prahalad and Stuart L. Hart among others. There has also been a development of approaches, though to a lesser extent, in industry. The question is whether such frameworks are worth pursuing with vigor?

Our response is a resounding “yes” and one reason is the congruency of such approaches with Catholic Social Teaching (CST). In continuing the work of Jesus, “man is called to render justice to the poor…actively seeking a new social order in which adequate solutions to material poverty are offered.” While the Church acknowledges that she does not propose or establish systems or models of social organization, she recognizes that she has a responsibility of influencing society and societal structures by means of her social doctrine.
We can be confident that as business organizations embrace the idea that the “bottom of the pyramid” (BOP) constitutes an economically viable market segment, it becomes critical that exchange situations that are directed towards such segments be shaped in a manner that is “fair” and “just” to both parties (i.e. the business unit and consumer). This is particularly important in an impersonal economic marketplace that too often exploits the poor due to an “imbalance” of resources, information or financial leverage on the part of the less advantaged member. Partly in response to this task, Harvard University researchers Kasturi Rangan and Arthur McCaffrey (2004) have offered the sketchy but promising concept of “Market Construction.” Rangan and McCaffrey suggest that for traditional markets to be less exploitative of the poor, the interests of the impoverished must be better represented, more clearly understood and that the poor must be further empowered to help shape the products and services that are provided.

Rangan and McCaffrey’s starting point is that although trillions of dollars have been expended by way of investment and aid to developing countries during the last twenty five years or so, it has hardly made a dent in global poverty. This point is echoed by Prahalad, who points out that “for more than 50 years, the World Bank, donor nations, various aid agencies, national governments, and, lately, civil society organizations have all fought the good fight, but have not eradicated poverty.” In Rangan and McCaffrey’s opinion, a major reason for this is that this investment has lacked an appropriate process for aiding the poor. Based on their research, they propose a model of engagement, the Market Construction Model, which is “built around a heuristic of interest representation, voice, and advocacy.” The pivot on which they build their framework is the poor client, who mostly does not have a voice and whose interests are often poorly represented in the exchange process. According to Rangan and McCaffrey, their proposed model operates under a different set of assumptions than the traditional market operation model. While marketing typically sells the organization to the customer, their new paradigm “seeks to sell the customer to the organization, using voice and advocacy to promote and represent the unrepresented interests of the poor.” The underlying assumption is that it is in the long-term interest of the business corporation to draw out the concerns and involvement of that customer segment that is often powerless and excluded. Such an approach will help defuse some of the suspicion and animosity towards globalization that characterizes global trade today.

Rangan and McCaffrey rightly point out that much of the antagonism towards globalization has been caused by the fact that “economic globalization is far too removed and abstract to be useful to the poor, who are curiously enough, presumed [emphasis added] to be the beneficiaries of much of the economic activity.” Through a process of interest representation, voice and advocacy, it is their hope that much of this sometimes misinformed antagonism can be eradicated. This is particularly important in the present situation where there is a growing distrust of business.

Based on the MCM framework, we have developed what we call an Integrative Justice Model (IJM) for Impoverished Markets (see table 1). At the core of our proposed model is an authentic engagement with the poor with non-exploitive intent. If profitability is the sole aim of the business enterprise, there is an increased possibility of exploitation, particularly if there is an imbalance of resources, information or financial leverage on the part of the customer. Consistent with philosopher Immanuel Kant’s second formulation of his categorical imperative, Laczniak points out that “members of the human community, particularly those most subject to exploitation, should never be used as an expedient means to a financial end.” The IJM with its core focus on more vigorously representing the interests of the poor client provides a framework that treats customers as ends and not merely as means to the profitability of the company.
Table 1: An Integrative Justice Model for Impoverished Markets

| Functional Processes | Interest representation of all stakeholders, especially consumers  
|                      | Mandated advocacy for the poor  
|                      | Co-creation of value with all stakeholders, especially consumers  
| Aim                   | Long term profit management  
|                      | Change lives (macro)  
| Outcomes              | Reconciliation of values and interests  
|                      | Customer empowerment  
|                      | Long-term relationships  
|                      | Sustainable business initiatives  
| Business Role         | Including unrepresented customer interests  
|                      | Facilitating value creation  
|                      | Investing in future consumption  
| Vision                | Laying the foundation for prototype markets that empower the poor while creating “win-win” situations for buyers and sellers  

The IJM in the light of Catholic Social Teaching

Catholic social teaching comprises of the tradition of papal, conciliar, and episcopal documents that deal with the Church’s response and commitment to the social demands of the gospel in the context of the world. While CST is rooted in scripture and founded on the life and teachings of Jesus, a generally accepted starting point of this tradition dates back to Pope Leo XIII’s encyclical *Rerum Novarum* in 1891.

CST emerges from our understanding and experience of God as Trinity. Thus, God is not a single entity but rather one whose very nature is relational. The implication of the Trinitarian understanding of God is that men and women who are created in God’s image share in this relational nature. At the core of CST is the awareness of the dignity of the human person who is created in God’s image. In treating customers, particularly impoverished and disadvantaged ones as ends and not merely as means to the profitability of the company, the IJM adheres to the principle of the dignity of the human person. This “should not be regarded as an outright rejection of cost-benefit analysis, which focuses on outcomes and is a mainstay of business analysis.” It is, however, a rejection of a pure utilitarian position. A utilitarian position would favor representing the interests of poor customers if doing so would result in clearly measurable benefits or outcomes. Thus, one could argue that the rent-to-own industry in offering products to customers who otherwise would not be able to own such items are acting in the interest of its impoverished customer base. The profits arising from such transactions which are largely on account of the high interest rates charged are the measurable benefits of such interest representation. However, charging such high rates to people who are least likely to afford them is clearly a violation of the principle of human dignity. In the IJM such transactions would be considered unjust as they do not sufficiently consider the interests of the impoverished segments.

As the impoverished segments are disadvantaged in many ways, largely through no fault of their own, it often becomes difficult for them to sufficiently articulate their interests. The IJM therefore proposes a mandated advocacy for the poor as part of the functional process of the company. This is in keeping with CST’s preferential option for the poor. As the US Bishops’
pastoral *Economic Justice for All* points out, “all members of society have a special obligation to the poor and vulnerable.” The pastoral further elaborates that this option “does not mean pitting one group against another, but rather, strengthening the whole community by assisting those who are most vulnerable.” Advocacy of the poor also ensures that the company refrains from actions that further disadvantage the impoverished segment. The Bishops’ pastoral reminds us of the message from Scripture and Church teaching that “the justice of a society is tested by the treatment of the poor.”

In keeping with the principle of human dignity, CST emphasizes that through work, the human person continues in the creative work of God. Human beings are thus co-creators with God. The concept of co-creation has been gaining acceptance in academic literature with the work of Vargo, Lusch, Prahalad, and Ramaswamy. Such an approach calls for a greater involvement and participation of customers in the very creation of value. This is consistent with CST’s call for a greater participation of all in the economic life of society. The Bishops’ pastoral highlights the fact that “it is wrong for a person or a group to be excluded unfairly or to be unable to participate or contribute to the economy.” However, it should be pointed out that participation or involvement in CST is understood mainly in terms of the right to economic initiative or the participation of everyone in the running of the business enterprise. Nowhere in the body of CST literature have we come across the concept of co-creating value with customers. In the IJM, the co-creation of value with all stakeholders, particularly poor customers, is considered important because it emphasizes an on-going partnership perspective that is in the long-run interests of both the company and the impoverished market segment.

CST recognizes the role of profits as an indicator that the business is functioning well. However, it also points out that profits, although legitimate should never be the sole objective of a company and should go together with another equally fundamental objective, that of social usefulness. The IJM incorporates a longer term financial view—not one that is driven by quarterly profit increments or even annual ROI targets. The market development of impoverished segments is inherently a longer process than one that is dictated by the length of the Julian calendar and/or annualized share performance scores. [Consider the development of on-line selling by e-Bay and the number of consecutive quarters (20+) of losses before the advent of “black” figures]. The acceptance of long term profit management rather than short term profit maximization is essential. The IJM will sacrifice short term profits in order to lay the groundwork for continued participation of impoverished segments in exchange relationships that will benefit their interests in the long run. Increasingly, large corporations (e.g. Coca Cola) are resisting the provision of quarterly profit guidance to investment analysts because they find such a focus antithetical to the corporate strategic planning process. Together with this long term profit management, the IJM aims at changing lives at a macro level which is indicative of its social usefulness.

CST upholds the close relation between morality and economics. According to CST, “giving the proper and due weight to the interests that belong specifically to the economy does not mean rejecting as irrational all considerations of a meta-economic order.” This is because “the purpose of the economy is not found in the economy itself, but rather in its being destined to humanity and society.” An outcome in the IJM is the reconciliation of values and interests. This follows on the lines of the saying in the book of Proverbs: “Better is a little with righteousness than great revenues with injustice” (Pr 16:8).

In the IJM, the knowledge and insight of the customer, despite the customer’s relative lack of financial assets, is seen as necessary to the co-production of a sustainable economic
relationship. The impoverished customers bring knowledge to the exchange relationship that sellers may not routinely possess. The continuous involvement of impoverished customers is seen as essential due to the IJM’s emphasis on long term and sustainable relationships rather than the short term and exploitive situations that too often characterize dealings with impoverished markets. In fact, CST reminds us that “the poor should be seen not as a problem, but as people who can become the principal builders of a new and more human future for everyone.”

In the wake of the corporate scandals in recent years, companies are beginning to realize that investors are not interested solely in the financial performance of the company but that the social and environmental issues are also important. According to the Social Investment Forum, socially responsible investment (SRI) assets in the United States rose more than 258 percent from $639 billion in 1995 to $2.29 trillion in 2005. At the same time, there may or may not be conclusive evidence that suggests that socially responsible firms outperform those that are not. However, the fact that SRI assets over a ten year period from 1995 to 2005 increased four percent faster than the entire universe of managed assets in the United States is indicative of a shift in investor preferences. It can be said with some confidence that CST has perhaps played a part in orchestrating this shift. According to CST, purchasing power gives consumers the responsibility of directing the behavior of producers towards “the presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates.” The IJM provides companies with a sustainable business framework that not only will be attractive to socially and environmentally conscious investors but also be in keeping with CST’s principle of Stewardship that “insists that people show their respect for the Creator by their stewardship of all creation.”

The IJM can be seen to be an investment in future consumption by poor market segments due to the sustainability perceived in having a long term, continuing exchange relationship. Certainly, investment by firms in the manufacturing capacity to deliver future production is not controversial. In fact, such future driven investment is usually perceived to be a wise business practice. When new investment in production capacity is announced, the share price of the company at focus often increases. Similarly, if implemented well, albeit with short term costs, the IJM can serve as a blueprint for enhancing future consumption by the poor.

CST points out that “poverty poses a dramatic problem of justice; in its various forms and with its various effects, it is characterized by an unequal growth that does not recognize the equal right of all people to take their seat at the table of the common banquet.” The vision of the IJM is to lay the foundation for prototype markets that truly empower the poor in a way that creates “win-win” situations for both buyers and sellers. It is our hope that this will give more people “a place at the table” and ensure a “globalization without marginalization.”

Conclusion

We believe the IJM addresses, to a large extent, the often felt gap between the principles of CST and actual business practice. The IJM embodies many elements of CST and provides the corporate sector with an actionable framework for more equitable marketing to the poor. The practicality of the IJM lies in the fact that many elements of the IJM are already being implemented in the business world. However, as the proverb goes, ‘the proof of the pudding is in the eating,’ the actual challenge ahead lies in the implementation and further refinement of the IJM by business firms.
The Co-operative, Catholic Social Thought and the Good Company. The importance of pluralism in the market.

by Dr Peter Davis

Abstract
The origins of co-operative social theory are to be found in a mix of Early Christian practise, later radical Christian ideas from the European Reformation, Enlightenment Philosophy, and pragmatic approaches to economic and social problems. Despite this possibly unpromising pedigree from a Catholic perspective it has been recognised that Co-operatives attempt to establish democracy, distributive justice and community. Co-operatives have, therefore, since the nineteenth century played a significant role in the practical expression of Catholic Social Theory.

The working definition of the co-operative business and its management proposed by the author as an ideal type shows a clear differentiation from other types of business. Yet co-operatives share in common with their rival’s economic goals for the provision of goods and services to customers within a market economy whether regulated or unregulated. The paper argues that co-operative principles may be said to underpin the idea of the good company in Catholic Social Theory at least as completely as in other ideal types of business.

The paper discusses the underpinnings of co-operative social theory and the model of the ideal co-operative business in terms of the history of co-operative development and the mixed results that co-operatives have produced in practise. The impact of the state, managerial control, membership apathy and other environmental factors on the development and performance of co-operatives businesses are reflected upon.

The review of co-operative practise concludes that the lessons of the co-operative business are that it rarely meets the potential implied in its ideal type. Equally co-operatives have demonstrated the capacity to effectively provide individuals with access to economic goods/services through an alternative framework to that of the share based company. Many companies can be identified as “good” and many co-operatives equally may be identified as “bad”. Nevertheless, co-operatives as a set, it is argued, do have a genuinely differentiating competitive role relative to the share based company in the marketplace that can benefit a wider range of stakeholders. Co-operatives create a pluralism that assists the efficient working of the market.

The paper concludes that it is as much this pluralism that co-operatives can bring to the market as their particular aims, ownership and governance structure that underpins their claim to social and economic significance. The challenge is not in making out the case but to persuade Catholic Business Schools to act upon it. Catholic students studying management and business have a right to be appraised of the Co-operative business as a realistic and significant organisational form in which to serve.

Introduction. The origins of the co-operative enterprise.
For England the European Reformation was fought out on the battle fields of the English civil war and the subsequent debates of the parliamentary army. Here where made the first modern
attempts at co-operation, in this case in the form of communitarian working and living, in the
practises of the Diggers and the Levellers. Although defeated their memory remained a potent
force amongst those seeking reform within the United Kingdom. Summing up the Lever/Digger
philosophy and agenda during the civil war period, Christopher Hill wrote,

“Man falls when, growing up in the competitive world, he surrenders to covetousness. But there
is nothing inevitable or necessarily permanent in this. Reason is in each one of us, and Reason
rejects covetousness which underlies private property. Co-operation and mutual help are dictated
by Reason for the preservation of the human race.”(C. Hill, 1972, p391)

These origins are, however, ignored in the two substantial "official" histories of the Co-operative
Movement in Britain - Hall and Watkins, Co-operation, (1934), and, Bonner A, British Co-
operation, (1961). Although both histories do acknowledge Owens’s communities to be the
beginnings of the modern co-operative movement. A proposition also generally accepted by the
historians of co-operation outside the UK. Both these British histories consign the Owenite idea
of community to a “failed and flawed” model superseded by the “true” form of co-operation that
of consumer co-operation after 1844. Yet today there are at least 600 communities operating in
the USA (Communities Directory, 2000) and in the United Kingdom it is estimated that some
600,000 people live in communal establishments. (Gatward, Lound and Bowman, 2002) In the
post war context one state –Israel- may be said to have been founded on and built up on the
communitarian principle.

The individual enrichment of the consumer through dividend became the main rationale for co-
operation in Britain. The communitarian strand that had been so prominent from the English civil
war in English radicalism faded from view in the face of the rise of Marxism and Fabian
Socialism. Both led the association of labour to become fixated upon the State. The collapse of
Communist regimes in the East and the retreat of Social Democracy in the West has, however,
now left the wider Labour Movement without a strategy with which to confront the challenges of
globalisation. With the failure of these two approaches it may be time to recognise that the
earlier ideas concerning co-operation by men like King and the English Labour Economist J.F.
Bray were discarded too hastily in favour of varieties of state-focused solutions.

If the States role in market regulation today has diminished then a new market based pluralism
may be a more realistic form of regulation. The pluralist model recognises the force of choice not
only in the consumer market but in the capital and labour markets as well. This can involve a
variety of co-operative forms of business enterprise. The original communitarian model as in the
classical living communities (for example the Kibbutz). Sometimes based on collectivised
production units governed democratically within close regional cultures (for example as in
Mondragon, Spain). Even more universally, however, there are communities of values and styles
of living and consuming for example as in the UK Co-operative Banks Ethical consumer
programme - Customers Who Care.

Catholic Social Theology in relation to Labour and Co-operation (1)
The foundations of Catholic social doctrine are well know and have been encapsulated in four
core principles (Weigel, G., 2003, p17). First there is the principle of personalism which upholds
the value and inalienable dignity of the individual who is the subject never the object for family,
society, community, tribe, clan, group, party, association, organisation, or state. (ibid.) The second principle is the principle of the common good. (Weigel, 2003, p17) This principle qualifies and also contextualises the first principle. We can only become really conscious of who we are through our interactions and relationships with other people. The third principle is the principle of subsidiarity or civil society. (Weigel, 2003, p18) Each decision taken should be taken at the lowest possible level of competence in society and ideally at the level of those who will be most affected by the decision. Associations autonomous from the state and governed by their members are seen to be important enabling structures for this principle. These include businesses, trade unions, co-operatives and mutual societies, political parties, charities, community associations etc.

Finally, the fourth principle is solidarity or civic friendship (Weigel, 2003, p18) sometimes called fellowship. Relationships are not based solely on formal contracts but on informal ties of kinship, friendship and of loyalty arising from our sense of belonging. The Church supports autonomous, voluntary associations as being important in developing the right character for the moral culture that underpins and restrains the individualism and greed that might otherwise infect and corrupt an open economy and democratic politics (Wiegal, G. 2003, p21).

**What often goes wrong in co-operatives**

*Internal subversion*

We have seen in the recent past a number of management led privatisations perhaps the biggest have taken place recently in the United Kingdom and Canada. The destruction of almost all the bigger building societies after years of service enriched many of the top managers and only one large society remains – the Nationwide whose management has remained firmly committed to its mutual status. The Saskatchewan Wheat Pool, formerly the largest co-operative in Canada, is no more as a direct result of managerial policies that failed to explain the risks involved in the early privatisation nor did they consult the membership before making such a far reaching change.

In a study of twelve failures in worker co-operatives in the 19th Century Hall and Watkins (1934, pp 100-101) found that in six cases management subverted the business for their own ends and they become converted to private companies, in two others it was incompetent management, and in two more lack of discipline by the workingmen themselves. Arnold Bonner (1961) also found that poor and corrupt management was a significant factor explaining co-operative failure.

*Membership corruption and apathy*

There is not a lot of research evidence to confirm the problem of corrupt boards but considerable anecdotal evidence and some cases based on the direct experience of the author. In the UK lay board resistance has been blamed for the failure of the movement to implement the 1950s Commission recommendations to reduce to 40 the number of retail societies (at the time over 300). Rather than merge from strength small societies lay boards clung onto their positions and the perks that derived from them. There was also lacking a strong C.E.O. to challenge these boards in the real interests of the wider membership.

**Cases were co-operation has got it right**

*The Israeli Kibbutz*
Founded in 1910 the principles of solidarity, fellowship and the common good could be said to be clearly enshrined in these Israeli communities although the levels of collectivism differ in the various types of Kibbutz. By the end of the 20th century there were close to 300 Kibbutz with an average population of between 300 to 600 persons with some of the largest having memberships of close to 1000.

**Mondragon**

The Mondragon co-operatives started from a very different political and social agenda to those of the Kibbutz. Notwithstanding this they do in fact exhibit the same strong sense of fellowship, community and service to the common good and nationalism exhibited by the Kibbutz. In this case its strong sense of social Justice is derived directly from its strongly rooted Catholicism (Spear, R. 1982, p7) Today Mondragon is the centre of a large network of around 147 co-operatives covering production, financial, distribution, research and training services, employing around 60,000 persons with a turnover in 2001 of eight billion Euros (Amozarrian, A. M. E., 2003, p2).

**The UK Co-operative Bank**

The UK Co-operative Bank is an altogether different form of co-operative operating in a very different cultural context from both the Kibbutz and the Mondragon examples above. In terms of its legal constitution it is a plc as it must be under UK Banking Law. It is a wholly owned subsidiary of the UK Co-operative Group itself owned by some 40 consumer co-operative societies.

The Banks Mission statement talks of solidarity with other organisations of like values and with the wider international co-operative movement. It espouses the ideal of fellowship and social responsibility and responsibility to community. It has redefined community as a community of ideas and values.

The church as the body of Christ is itself a community but one that is nurtured and strengthened by its inclusion of communities within the body as a whole. These communities of religious and lay members are crucial to the vigour of the body as a whole. Christian leadership of more secular communities that reach out beyond the Church may also be critical to the establishment of the free and virtuous society. The truth is that left alone in the pursuit of these economic goals without the stewardship of persons with Character to uphold both individual dignity and the common good these institutions are as vulnerable as any others to materialism and individualism.

**Pluralism and the pursuit of justice**

If the free and virtuous society is to become a reality we will need an economic system that is both inclusive and competitive. The way to ensure this is by having real competition between different forms of business ownership. Membership based businesses are a significant segment of the modern economy that at their best have made major contributions to economic and social development as in the cases of the Kibbutz and Mondragon. They can also show that even when relatively small in size next to the share-based competitors they can respond providing real consumer choice that can prevent oligopolistic manipulation of prices as in the case of ATM charges in the UK Co-operative Bank case. The UK Co-operative Bank case also demonstrates that when market research is used to seek out “a robust moral culture” within the consumer 79
market values that support justice and peace are found to be out there waiting for an opportunity to be given expression.

Without a pluralism of ownership forms the contemporary trends towards concentration in share capital based business are likely to create market conditions conducive to the realisation of Adam Smiths fear of a conspiracy against the consumer. Whilst all business organisations can find theological, ethical or pragmatic arguments for meeting the good company criteria market conditions may very well undermine the good company principles in practise. Co-operatives with their different values and goals, non-transferable (non-tradable) shares and membership base can challenge oligopolistic market structures and force a genuine competitive standard in the marketplace.

The management of co-operatives is, I believe, one important area for the development of a vocation of service for the fulfilment of Catholic Social Theology. (Davis 2000) I have argued that the whole project of establishing the good company requires a pluralism of forms of business ownership. Catholic Business Schools have a responsibility to consider the issues of management in the co-operative context and to assist in up-grading the provision for management development for this sector.
Cooperatives, good companies “by definition” (question mark or not?)

The cooperative experience has endeavoured throughout its history to directly link principles to practice. While the trend of Corporate Social Responsibility is relatively new, cooperatives have been socially responsible since their inception in the 19th century.

In the paper I will analyse the definition, values and principles of cooperatives:
1. Voluntary and Open Membership;
2. Democratic Control by Members;
3. Economic Participation of Members;
4. Autonomy and Independence;
5. Education, Training and Information;
6. Co-operation Among Co-operatives;
7. Concern for the Community

My paper will analyse these concepts in the context of the principles of Catholic Social Thought (including the first order principles of human dignity and common good, the second order principles like subjectivity of work, subsidiarity, the social nature of property, etc.) and by linking them to some of the key aspects of CSR, including job creation, supported employment for disadvantaged groups, community and local development.

A. The principles of cooperatives

The founding principles of cooperatives come from the establishment of the Rochdale Equitable Pioneers Society in England in 1844. The statutes of the Rochdale society, which established the guiding principle of cooperation have endured the test of time.

The distinguishing features of these principle are:
- Profits are returned to members in proportion to the number of transactions that each member carries out with the cooperative;
- Capital is paid out only in the form of limited interest;
- The principle of one member, one vote, is employed in decision making structure;
- The cooperative is managed independently;
- Membership and resignation are voluntary.

Since its creation in 1895, the International Cooperative Alliance (ICA) has been the final authority for defining cooperatives and for elaborating the principles upon which cooperatives should be based.

ICA reviewed the Co-operative Principles three times in 1937, 1966 and 1995. These reviews facilitated the modernisation of the idea of Co-operation, maintained its relevance and provided modern criteria to determine whether an organisation could be designated a co-operative.

The current Statement on the Co-operative Identity was adopted at the 1995 Congress and General Assembly of the International Co-operative Alliance, held in Manchester to celebrate the Alliance's centenary.

The statement of cooperative identity was the reaction to four major contemporary trends:
- The disintegration of the centrally planned economies of Central and Eastern Europe.
- The ambiguous role of cooperatives in many Southern countries.
The overpowering dominance of market ideologies and classical liberal thought (consumer cooperatives in particular have occasionally lost touch with their members because of their large size and there was a growing uncertainty about what cooperatives stood for and who they belonged to, leading to a loss of their sense of purpose as membership-based organisations).

And increased global integration through technology – the advent of what Marshall McLuhan called “the global village”

The above reasons indicated an urgent need to clarify what we mean by cooperatives. In addition to the ICA updating of the cooperative values and principles in 1995, in the last few years several very important statements (that I can briefly illustrate in the paper) have been published by international organisations:

- 2001 - The United Nations’ guidelines aimed at creating a supportive environment for the development of cooperatives
- 2002 - ILO recommendation 193 concerning the promotion of cooperatives and the introduction at national level of new cooperatives laws
- 2004 - The European Commission published a communication on the promotion of cooperative enterprises in Europe.

These statements from international institutions clearly illustrate that a “balanced society necessitates the existence of a strong public and private sector as well as a strong cooperative, mutual and other social and non-governmental sector”...

B - Cooperatives in Catholic Social Thought

Christian solidarity is certainly one of the historical roots of cooperativism. Since Rerum Novarum the Church has consistently mentioned cooperative enterprises in all subsequent social documents. In the paper I will rapidly comment on the main passages that refer to cooperatives in the social Encyclicals with a particular reference to the so called “Cooperative Encyclical” that is, the speeches of John Paul II to co-operators in Faenza – Italy on 10th of May 1986

…“ We can say that the novelty of the cooperative experience is in its effort to combine individual and communitarian dimensions.

In this sense it is a concrete expression of the complementarities that the social doctrine of the Church has always tried to promote between the person and society, it is the synthesis between the advocacy of individual rights and the promotion of the common good. “… I can complete this section with comments on the “Compendium of the Social doctrine of the Church”.

The influence of social Catholicism has been important in the history of several cooperatives experiences, for example in Québec, in the Basque country (Mondragon), the German Raiffeisen Movement, the Antigonish movement in Nova Scotia, in North of Italy. The cooperative enterprise remains the privileged model used by many ecclesial initiatives to promote human dignity and autonomy and the empowerment of disadvantaged populations in both the North as in the South.

C - Corporate Social Responsibility and cooperatives identity or “there is nothing new under the sun” (Ecclesiastes 1,9).

I will try to demonstrate that there is a growing alignment of the theme of corporate social responsibility and the values and principles of cooperation.
Due to their specific nature, cooperatives and their business models are inherently socially responsible. CSR is naturally embedded in the cooperative identity.

Cooperatives are different in three key ways, they have a different purpose, a different control structure and a different approach to the allocation of profit. The corporate governance of cooperatives is also unique, demanding and delicate.

Cooperatives are a specific genus in the market economy and are not always understood.

Two recent Italian cases will be illustrated:
1 – The recent Italian reform of company law, with a specific attention paid to cooperatives can be seen as a positive example. The reform recognised the unique diversity, based in the nature of cooperatives enterprises vis-à-vis of other kinds of enterprises, and also drew attention to the ’mutualistic’ function of cooperatives.
2- The attempt by UNIPOL, a insurance company belonging to the consumer cooperatives, which failed to take over one of the main national banks, BNL, can be seen as a negative example. This affair revealed enormous misconduct by the management, which was no longer in the control of the membership. It is a very long and complicated episode that throws a dark shadow on the whole Italian cooperative movement particularly because it was exploited by politicians during the recent elections. D – Raising awareness about and operating under a different and diverse approach to governance, while remaining true to the cooperative principles is a key challenge.

Facing a global movement where it is not easy to discern the opportunism and tactical marketing from the real will of social progress, cooperatives represent a reference point.

I think that cooperatives have a clear economic and social role to play today. This applies to countries in both the North and in the South, in traditional sectors and in the social and solidarity based economy.

Whatever will be the case in the future it will depend mainly on the cooperative movement itself.

If the movement can continue to work with economic and social aspirations as well as renew and adapt itself while retaining its fundamental values, this will undoubtedly be the case. For this reason, it is important that the members, management and directors of cooperatives are and continue to be aware of the fact that cooperatives exist to serve their members and their community. Members, management and directors must take full responsibility for this. “Cooperatives do not have members, members have cooperatives” and it will be a challenge for the coming decades to give shape to this idea.
Questions Organizational Leaders Pose To Theologians
Regarding “The Good Company”

Andre L. Delbecq

Introduction

In seminars I am in continuous contact with corporate executives. Many have had some exposure to the literature on Catholic Social Teaching and business ethics, but few in any depth. Listening to homilies and reading commentary on business in church related publications they report that they do not feel “embraced” by contemporary theology. They perceive much that is written and much that they hear is accusatory rather than inspiring. These executives called to efficiently provide goods and services to humankind and struggling to do so in a just fashion feel there is little support for their vocation within their churches.

I alerted them to the forthcoming conference on “The Good Company” and asked them what questions they would pose if they were attending the conference. In this “prelude” to conference dialog I thought it might be useful to reflect on their questions. Perhaps by holding in our minds what is on their minds it will be easier to bridge the gap between their felt needs as organizational leaders and our conversations.

Regarding Theological Discourse Focused on Their Companies They Ask:

**How will an emergent theology build from their human experience as leaders?**

These organizational leaders search for an inclusion of a rich theological anthropology that will integrate how the Holy Spirit has already been present in the lives of contemporary leaders, is already reflected in best practices within their organizations and is already manifest in their professional and social science literatures.

They want to avoid a false dualism between the secular and the theological and they long for affirmation of what is noble and good in contemporary organization life avoiding simply a litany of problems they are aware of and about which they share concern.

Regarding the Calling of Organizational Leadership They Ask:

**How can theology enrich their understanding of the particular charism that is embodied in the call to leadership?**

They search for an integration of contemporary leadership literature in the social sciences with how leadership has been understood in the Church’s traditions and experiences.
They want to deepen the concept of “servant leadership” beyond a cliché. They search for a Christology and Ecclesiology that will inform their role. They want to affirm how leadership within secular organizations can be a pivotal spiritual calling, a spiritual path, and itself a form of prayer.

Regarding the Spiritual Journey They Ask?

What is the spirituality appropriate to those who lead complex organizations in the secular world?

Despite the universal call to holiness from Vatican II, they find most spirituality literature still focused on those in religious life or on individual piety separated from the context and the demands they face as leaders.

What are forms and rhythms of personal prayer that are congruent with the “busyness” of an active leadership calling (inclusive of meditation/reflection/contemplation)?

How are the cycles/stages of the spiritual journey experienced in the life of an organizational leader? The classic stages of purgation, illumination and unification must unfold within the day to day of each person’s vocation and duties. They are searching for an understanding of sin and the mystery of grace in their vocational struggles.

How is the foundation for human happiness as revealed in the Christian tradition expressed in organizational contexts?

Leaders are interested in organizational expressions of justice and ethics. They want to understand what the structure, processes, norms and values are that form the preconditions to enhance human goodness and avoid structural evil. They find much discussion of ethics is focused on an “individual” level of analysis. As leaders they want to explore organizational conditions that reinforce goodness as opposed to those that reinforce injustice. Thus, they feel the theme of this conference – The Good Organization – is exactly on target as a level of analysis. They seek normative models and case examples.

Since a central role of the leader is guiding strategic decision making, how does the spiritual discipline of discernment inform group decision processes in moving toward greater justice?

What are models for group discernment that can provide a platform for commencing organizational transformation in light of institutionalized injustice within organizational life? Here attention to group discernment protocols must be
Regarding Building Community (communion) Within Organizations They Ask?

*What would relationships within an organization be if we moved beyond instrumental effectiveness toward true spiritual community?*

The social science literature they are familiar with contains many models of normative “teamwork” and desirable “organizational culture”. However, spiritual insights regarding sins against community and conditions for *agape* are needed. Much of the management literature they read is utopian. It is based on very competitive models associated with idealized high performers. They seek models that facilitate a contributive/collaborative ethos where imperfect individuals are inspired to trust and to share their gifts while accepting the natural weakness of the human condition.

*What are exemplary spiritual practices that support governance structures and processes within organizations that embrace subsidiarity?*

Decentralization, empowerment, and loose-coupling are well understood by these executives. Indeed, norms and structural preconditions for subsidiarity are often already well developed within their organizations (in contrast to many religious and social organizations).

However, if subsidiarity is to work, leaders and members must function at a higher level of psychological and spiritual maturity. What would be development programs inclusive of spiritual disciplines that would enable leaders at all organizational levels to have sufficient spiritual maturity to listen to and embrace the gifts of others?

Regarding Religious Pluralism They Ask:

*How can we speak about all of this within contemporary organizations which are inherently inter-religious?*

We have moved into an historical period of inter-religious organizational composition. Likewise, the “clienteles” organizations serve are also no longer represented by a single religious tradition. Leaders feel a need a contemporary spiritual understanding that witnesses our Catholic vision and heritage, but which is not restricted by a parochial Catholic identity.

Thus I would conclude with two caveats for our dialog. The first is the need to couple structure and ethics to spirituality and conversion. The second is the need for contextualization.
Let me first speak to the juxtaposition of structure and ethics with spirituality. If any of our models of “The Good Organization” are to become more generally implanted, we will need to depend on actions by leaders willing to embrace a deep spiritual journey (conversion). Otherwise our models of justice will never become institutionalized within the day to day actions of contemporary organizational life. Therefore, I hope we will be conscious of and return to the challenges associated with deepening the spirituality of leaders in all of our discussions of structures, processes and norms for “The Good Organization.”

Second, regarding contextualization, leaders do not expect theologians, ethicists and management scholars to fill in the contextualization they seek. Indeed, they know they must be the ones to integrate the insights from philosophy, theology and ethics into their contemporary organization settings. Still, if we can’t expect executives to become theologians or philosophers, or theologians and philosophers to become executives, then who will build the bridge between conceptualization and practice? I think it will largely be faculty in schools of business, public and social administration, executive coaches, OD specialists and corporate trainers who must become the translators bridging this gap.

So I conclude emphasizing two insights. 1) We need to be particularly sensitive regarding the implications for the spiritual journey required of leaders that the conceptualizations and case studies shared during this conference imply. 2) We need to hold in our consciousness the need for future dialog with organizational leaders and their teachers, trainers and coaches in order that our evolving theology and philosophy bridges to the realities of contemporary leadership life.
The Making of an Ethical Executive

William J. Byron, S.J.

I number myself among those who were disappointed with the negative treatment given by *The Economist*, in a special supplement labeled “Capitalism and Ethics” (January 20, 2005) to the “good company” theme that happens to be the focus of this conference. I judged both the tone and the content of the critique to fall short of *The Economist*’s normally high standards. It was not, however, unwelcome because I was able to introduce the article for classroom discussion with my Loyola MBA students that semester.

In that same semester, I also introduced for reading and discussion Robert J. Shiller’s *New York Times* article, “How Wall Street Learns to Look the Other Way” (February 8, 2005). Five Letters-to-the-Editor commenting on Shiller’s article appeared in that newspaper on February 14, 2005 under this headline: “The Making of an Ethical Executive” (the title I’ve chosen for the present paper). I was delighted to discover that one of those letters was written by one of my MBA students, who, it must be said, had expressed in our classroom discussion his substantial agreement with the position on corporate social responsibility taken by *The Economist*.

So, out of this real life, real time classroom setting, I propose to offer in this paper (1) a summary of what appeared in *The Economist*, (2) a summary of what I present in the classroom as the essentials of Corporate Social Responsibility, (3) a summary of what Robert Shiller wrote in *The New York Times*, (4) my student’s published response to Shiller, and (5) an outline of my classroom approach (substance and style) to the communication of principles, which, if internalized by the students, can contribute to “The Making of an Ethical Executive.”

By way of further pre-note, let me state my fundamental thesis: Principles of corporate social responsibility and business ethics can, if clearly articulated in the classroom by word, image, and example, be understood and assimilated (internalized) by students and remain within them to be drawn upon as prompters of ethical behavior in later years.

I. *The Economist* Critique

In the May 3, 2004 issue of *Business Week*, Laura D’Andrea Tyson, dean of the London Business School and former chair of President Clinton’s Council of Economic Advisers, wrote: “Corporate scandals and excessive compensation packages for rapacious CEOs have dominated business news during the past three years. Profiles of visionary corporate heroes have given way to cautionary tales about greedy villains, and public trust in business has plummeted. At the same time, however, a new kind of business hero, the social entrepreneur, has been gaining media attention and capturing the public’s imagination. Even students and faculty in the world’s top-ranked business schools—a typically jaded and hard-headed group—are becoming inspired.”

Well, as if to nip these stirrings of inspiration in the bud, the London *Economist* stepped into the debate on January 20, 2005 with a feature on “The Good Company” that declared it “a pity” that the movement for corporate social responsibility (CSR) appeared to be winning the battle of ideas.
CSR is “mostly for show,” says the *Economist*, acknowledging, however, that there “are many interesting exceptions—companies that have modeled themselves in ways different from the norm; quite often, particular practices that work well enough in business terms to be genuinely embraced; charitable endeavors that happen to be doing real good, and on a meaningful scale.” But for most big companies, says the magazine, “CSR is little more than a cosmetic treatment.” And the editors reinforce this point by saying: “The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night.” At best, CSR is “a gloss on capitalism.”

Although some CSR initiatives may do good, “it is important to resist the success of the CSR idea—that is, the almost universal acceptance of its premises and main lines of argument.” The premises, of course, point to flaws in the capitalist system; and the main lines of argument urge, often from a standpoint of justice, that corrective or compensatory action must be taken.

The *Economist* acknowledges that “private enterprise serves the public good only if (emphasis mine) certain stringent conditions are met. As a result, getting the most out of capitalism requires public intervention of various kinds, and a lot of it: taxes, public spending, regulation in many different areas of business activity. It also requires corporate executives to be accountable—but to the right people in the right way.” Presumably, the right people would be the shareholders, and the right way would be personal integrity and private initiative.

II. The Essentials of Corporate Social Responsibility

It is a pleasure to acknowledge here my debt to Archie B. Carroll for “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders,” an article that appeared in *Business Horizons* (July-August, 1991) and was later incorporated into his textbook on the social responsibilities of business. Carroll’s “pyramid” can be thought of as a four-level box or four-drawer file-cabinet that both defines and describes a socially responsible business organization. Here is how I present it to students.

These four layers represent the essentials of CSR. At bottom, first and fundamental is the economic level—the organization must be economically viable if it is to be socially responsible. Hence profit is not a dirty word. It is an essential element of social responsibility. In classroom lectures I typically use an analogy to make this point with students. Just as a human person cannot survive without food, a business firm cannot survive without profit. But, I always ask, who would tell you that it is a good idea to maximize your intake of food? So when deciding what’s best for a firm, you should work to optimize the firm’s long-term viability but don’t make the mistake of thinking profit-maximization is the way to make that happen.

The second level of corporate social responsibility is the legal. At the beginning of any undergraduate business ethics course, a typical student will define business ethics as “making sure you operate within the law.” But not all ethical requirements are mandated by law (nor are all unethical behaviors forbidden by law). So the legal is an important element, but the social responsibility story does not end there.
The third level—above the economic and the legal—is the ethical. This means doing the right thing. It marks the introduction of “ought” and “ought not” into managerial decisions and deliberations. The sources of ethical sensitivity and standards can be found in reason (philosophical), religion and revelation (theological), experience (personal, vicarious, historical, literary), and common sense. It is at this level that considerations of character—what it is, how it is formed, and what strengthens or weakens it—enter the picture.

Fourth and finally, at the top of the pyramid, is what Archie Carroll calls the voluntary/discretionary/philanthropic dimension of corporate social responsibility. At this level, the corporation does good things that are not necessarily profit-producing. Nor are they required by law. Nor would one be considered unethical for omitting them. But they are good for the community and a good corporate citizen should be doing them—e.g., helping the homeless, supporting the symphony orchestra, doing volunteer service on or off company time. One of my Jewish friends, himself an admirably socially-conscious citizen, insists that there is nothing “discretionary” about his philanthropic and volunteer activity. He subsumes it under the “ethical” and regards it as part of his Jewish cultural/religious responsibility. He considers himself thus obliged. Within, and indeed through, this framework, I ask my students to look at the real world of business and take the measure of social responsibility.

III. The Robert Shiller Article

In the *New York Times* on February 8, 2005, Robert J. Shiller, an economics professor at Yale, published an essay under the title, “How Wall Street Learns to Look the Other Way.” His point of departure for this article was publication of a report of the board of the New York Stock Exchange on the notorious compensation package given to its former chairman, Dick Grasso. The report did not provide, noted Professor Shiller, “an answer to an obvious question: Why did nobody on the exchange’s board look at that astronomical sum and feel some personal responsibility to find out what was happening?”

Shiller’s explanation draws the reader into the typical business school classroom and curriculum. He states flatly that “the view of the world that one gets in a modern business curriculum can lead to an ethical disconnect. The courses often encourage a view of human nature that does not inspire high-mindedness.” And he focuses on financial theory, “the cornerstone of modern business education.” The theory, highly mathematicized, as we all know, “portrays people as nothing more than ‘maximizers’ of their own ‘expected utility.’ This means that people are expected to be totally selfish, constantly calculating their own advantage, with no thought of others.” That leaves little room for talk about ethics!

Turning to the August 7, 2003 board meeting where Mr. Grasso received approval to pocket $139.5 million, Shiller says questions whether the compensation was too high were raised, but got no traction. “Maybe it is not too surprising that they were ignored: executive compensation has been soaring in recent years, and to people today, it may well seem that these increases must be entirely the result of respectable ‘market forces.’” The problem, says Shiller, is that modern business education encourages “excessive respect” for whatever a free market produces. Ultimately, the problem at the level of business education is, says Shiller, a tendency toward
overspecialization. Professors have their research interests and expertise; subject matter is defined accordingly. “The specialty of financial theory has largely come to be defined by skills manipulating a narrow class of mathematical models of purely selfish behavior. Business ethics is just another academic specialty, and can seem as remote as microbiology to those studying financial theory.”

The Grasso compensation problem as well as the scandals at Enron, Tyco, and other well-known venues, would have been “a little less likely,” in Shiller’s view, “if more of us professors integrated business education into a broader historical and psychological context.” This is an acknowledgment that all of us are shaped by cultural forces and there should be room in the classroom and in the curriculum for exposure to an understanding of the values that shape the right cultures. If the dominant value is greed, a corresponding culture will develop. If the dominant value is cooperation, or justice, or concern for the common good, remarkably different cultures will emerge.

IV. A Student’s Published Response

The New York Times published, on February 14, 2005, five letters to the editor commenting on Robert Shiller’s essay. “Too little, too late,” said one writer. “If the more fundamental lessons of morality are not learned in childhood—at the dinner table, in school, on the athletic field and in places of worship,” don’t expect social responsibility and accountability to emerge in later life. An historian and former dean of two business schools wrote that business schools are incapable of broadening their outlook in teaching and research. He proposes reliance on colleagues from other disciplines “like history, literature and philosophy to develop ethical sensibilities” in business students. A sitting liberal arts dean expressed the view that attention to the needs of the local community along with a requirement that each business student have a liberal arts minor would be a good solution. Another writer pointed to class and structural factors as explanatory of soaring executive compensation.

What a pleasure it was for me to see there, in the middle of this pack of commentators, one of my own MBA students, who took a bit of literary license to describe himself as a “recent business school graduate” (he still had one month to go!). Here is what he wrote:

To the Editor:
As a recent business school graduate, I feel that business school is a powerful tool to shape one’s ability to compete and add value to an organization, but I think it is less able to shape ethical values.

We had classes on ethical behavior. But if you are a rotten person going into B-school, you will probably still be a rotten person when you come out.

Business schools are an easy scapegoat. But we must look at our culture in general and the decline in civil and ethical behavior. We are all products of many influences, and a relatively short curriculum cannot reshape someone’s values.
That said, the vast majority of business owners are pretty good people who care about their employees, their customers—and, yes, their profits. Balancing these priorities can be difficult.”
Thane Bellomo, Felton, Pa., Feb. 8, 2005

V. Substance and Style in the Communication of Principles

In working with students, I take great pains to point out that principles are initiating impulses; they are internalized convictions that produce action. Principles direct your actions and your choices. Your principles help to define who you are. Principles are beginnings; they lead to something. That’s why I like to tell students that on the road to success in business, they should “let their principles do the driving.”

For research that produced my just-published book The Power of Principles: Ethics in the New Corporate Culture (Orbis Books), I incorporated ten “old ethical principles” in interviews with business executives to see how they would articulate them and explain their meaning to young persons just starting out in business and anxious to avoid the ethical quicksand that pulled down Arthur Andersen, Enron, WorldCom and others in recent years. I will list these principles here in summary form:

First, the principle of integrity, which I think of in terms of wholeness, solidity of character, honesty, trustworthiness, and responsibility. Second, the principle of veracity, which involves telling the truth in all circumstances; it also includes accountability and transparency. Third, the principle of fairness, by which I mean justice—treating equals equally, giving to everyone his or her due. Fourth, the principle of human dignity, the bedrock principle of all ethics, personal and organizational. This acknowledges a person’s inherent worth. It prompts respectful recognition of another’s value simply for being human. Fifth, the principle of participation, which respects another’s right not to be ignored on the job or shut out from decision-making within the organization. Sixth, the principle of commitment. A committed person can be counted on for dependability, reliability, fidelity, loyalty. Seventh, the principle of social responsibility, which points to an obligation to look to the interests of the broader community and to treat the community as a stakeholder in what the corporation or organization does. Eighth, the principle of the common good, which operates as an antidote to individualism; it aligns one’s personal interests with the community’s well-being. Ninth, the principle of subsidiarity, which is best understood in terms of delegation and decentralization, keeping decision-making close to the ground. It means that no decision should be taken at a higher level that can be made as effectively and efficiently at a lower level in the organization. This could be viewed as a “principle of respect for proper autonomy.” Tenth, the ethical principle of love, which I see as a principle, an internalized conviction, that prompts a willingness to sacrifice one’s time, convenience, and a share of one’s ideas and material goods for the good of others.

The style that works best in communicating these principles is, I’ve found, conversational. Nothing to be memorized. No dictionaries or philosophy notes to be consulted. Just start talking about the principles. Declare each student to be the world’s leading expert on his or her own opinion and then simply ask: How do you understand integrity? What for you is the meaning of veracity? How do you understand the common good? Then broaden the inquiry to ask students to
recall excerpts from films, plays, speeches, novels and other literary or historical sources that capture the essence of one of these principles. What persons do you know who embody them? What about their presence or absence in yourself? There’s the rub. Empty suits and hollow character have nothing to contribute to the making of an ethical executive.
SSM HEALTH CARE:
THE INTEGRATION OF CATHOLIC SOCIAL THOUGHT VALUES
IN A MODERN HEALTH CARE SYSTEM

Sister Melanie DiPietro, S.C. and Alison Sulentic

This year (2006) marks the twentieth anniversary of the boldest economic statement of the American church. In *Economic Justice for All*, the United States Conference of Catholic Bishops stated:

Every perspective on economic life that is human, moral, and Christian must be shaped by three questions: What does the economy do for people? What does it do to people? And how do people participate in it?\(^1\)

The pastoral letter challenged the laity "not merely to think differently, but also to act differently" in their "secular vocations."\(^2\) Equally striking, however, is the pastoral letter's insistence that the Church hold itself accountable for the application of the social teachings to the work place—its own workplace. The Bishops stated their objective and their commitment in plain language: "[a]ll the moral principles that govern the just operation of any economic endeavor apply to the Church and its agencies and institutions…"\(^3\)

This paper presents a case study of SSM Health Care (SSMHC), a large multi-state Catholic health care system that accepted the challenge of *Economic Justice for All*. When the Franciscan Sisters of Mary and their collaborators began to chart SSMHC's future as a modern multi-faceted health care delivery system in the mid-1980s, they self-consciously undertook to pay special attention to the economic dimensions of Catholic social thought (CST) in the organization's allocation of resources, the development of relationships between management and employees, and the education and decision-making processes of its governance and management. With this goal, the Members of SSMHC directed the Board of Directors to integrate the values of the Franciscan Sisters of Mary and Catholic social thought into the day-to-day operations of the SSMHC organization. In 2002 SSMHC's successful management and effective and efficient delivery of health care services earned the validation from secular business evaluators when it became the first health care system in the nation to be awarded the Malcolm Baldrige National Quality Award in recognition of excellence in ethical business practices.

This case study responds to the call for further examination and development of "middle-level thinking" in Catholic social thought.\(^4\) Recognizing the need for organizational policies and

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2 See id. at ¶ 25.
3 See id. Ch. 5, ¶ 347.
4 See Dean Maines and Michael Naughton, *Middle Level Thinking: The Importance of Connecting and Mediating Catholic Social Thought, Corporate Social Responsibility and Business Practice* [Working Draft] 3 (2005).
practices that "help business professionals to move from a set of broad theological and moral principles and doctrines to more particular, concrete moral judgments,"5 we offer a detailed examination of a health care system that created internal policies and practices grounded in Catholic social thought and validated by successful participation in a highly competitive and stressful economic market. This paper benefits from the willingness of Sister Mary Jean Ryan, FSM, President and Chief Executive Officer of SSMHC, to permit us to interview her staff. With Sister Mary Jean's permission, we have also been able to draw upon some of the original concept papers authored by Sister Melanie DiPietro, S.C. and Father Dennis Brodeur at the inception of the program. Sister Melanie was asked to design what became the first Office of Stewardship (OS) and the CST curriculum. Father Dennis became the first Senior Vice President for Stewardship and continued to do the ethical analysis for clinical, business and public policy positions of the corporation. Together they taught the first formal curriculum in Catholic Social Teaching.

I. Distinctive Features of the SSMHC Approach: Stewardship and Education.

In the years immediately preceding the establishment of SSMHC, the Franciscan Sisters of Mary were engaged in the process of studying and renewing their Franciscan identity. This process led the congregation to focus on conversion as a fundamental aspect of Franciscan thinking and the relationship of conversion to sin. Influenced by Franciscan writers on social and structural sin, the congregation began a disciplined examination of the potential of a corporation to be a place for virtue or sin.

With this in mind, the Major Superior of the religious institute directed Sister Mary Jean Ryan to address the role of values in the life and operations of the nascent health care system. The four "cornerstones" of SSMHC's organizational structure reflect the specifically Catholic philosophy of the Franciscan Sisters of Mary, as well as some of the fundamental concepts of Catholic social thought: collegiality, subsidiarity, collaboration and accountability.6 The management team was committed to honoring SSMHC's core values as "sacred promises to be kept"7 rather than reducing these values to inspirational statements.

In the late 1980s, Sister Mary Jean Ryan commissioned Sister Melanie and Father Dennis to plan and to implement a program to weave Catholic social thought values into the fabric of SSMHC's daily operations. Relying on their theological background and interest in applied CST, as well as Sister Melanie's training in civil and canon law and Father Dennis' background as a health care ethicist, Sister Mary Jean encouraged the team to exercise their creative energy in proposing the method by which CST values would be integrated into the life of the institution.

Sister Melanie and Father Dennis designed a program to facilitate a practical but sophisticated understanding of Catholic social thought in serious dialogue with complicated economic and business judgments. The three pillars of the education program were:

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5 See id. at 5
7 Id. at 4.
The establishment of a presidential cabinet position\(^8\) for the Executive Vice President of Stewardship,\(^9\) whose authority and participation in decision-making equals that of the Vice Presidents of Human Resources, Finance and other more traditional management concerns. In the words of the original concept paper, the Executive Vice President was not responsible for integrating the Mission into the financial plan, the marketing plan or the business plan. Rather, the Vice President of Stewardship works with the responsible party, and that responsible party retains the authority to receive, integrate or reject the information given from the Vice President of Stewardship. In other words, the Vice President of Stewardship did not take over financial decision-making but, instead, he participated as a equal in the decision making sessions involving the senior management assembled in Office of the President and advised decision-makers about the implications of possible decisions on SSMHC's commitment to Catholic social thought values.

- The establishment and implementation of a substantive education curriculum that required corporate members, directors and executive leadership to receive the same formal instruction in the core substantive principles of Catholic social thought and the methods of analysis applied to concrete corporate issues. This curriculum required decision-makers to study CST in order to understand SSMHC's distinctive identity. Once decision-makers understood CST on its own merit, the curriculum facilitated discussion of business issues in a comparative context. The group analyzed proposed options by comparing costs and consequences of a decision driven by Catholic identity and a decision that replicates industry norms. The curriculum was integrated into regularly scheduled meetings of corporate leadership with the presidents and received priority in the scheduling of corporate training seminars.

- Separately from the governance and management component, SSMHC developed a training program that was tailored especially for “hands on” caregivers. This program emphasized the practical application of Catholic social thought in the way in which each employee interacted with patients. Sister Francine Burkert, FSM, a gifted and charismatic Franciscan sister, played the principal role in structuring and providing this training with the Mission Awareness Teams composed of employees from different departments in each facility.

The fundamental premise of this three-part program was that the Catholic identity of SSMHC would only be a paper statement unless each decision-maker within governance and management and each employees had sufficient information of the substantive content of Church teaching and CST appropriate to his or her function in the

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\(^8\) The president's cabinet was originally known as the "Office of the President."

\(^9\) This title was later changed to "Senior Vice-President."
corporation. Further, there had to be a practical dialogue that could only happen through commonly understood language. Therefore, Sister Melanie and Father Dennis committed themselves to being “bilingual”; they used the language of CST theory and the language of legal, financial and management theory in order to convey the content of the curriculum. This practice was a mutual challenge for both the presenters and the decision-makers who participated in the curriculum. Sister Mary Jean Ryan led by example when she declared her own need to learn.

Several principles guided further development and implementation of these programs:

"Information precedes formation." In other words, an executive needed to understand the content of Catholic social thought in order to undertake the kind of decision-making required in a sophisticated Catholic health care corporation. An executive's behavioral compliance with the corporation's commitment to management styles and practices (which reflected CST values) could not fairly be evaluated unless the executive understood CST. This was particularly important when the executive's front-line discretion involved the application of CST values in relationship to other people. Thus, an individual executive's spiritual formation was understood to be distinct from his or her behavioral compliance with the corporation's commitment to policies and practices that reflected CST values.

"We are not a parish --we are a corporation." The employment relationship between SSMHC and its employees defined the boundaries of both education and evaluation. Behavioral expectations were described in terms of standards rooted in CST rather than in terms of the private or personal beliefs of employees. Evaluations of implementation of CST focused on criteria for corporate decisions and performance. Employment policies and objectives created and reinforced clear distinctions between the functions of members, directors and management. In practical terms, this meant resisting the temptation to substitute spiritual formation for education in the concepts of CST that were relevant to business decision making.

Likewise, directors and employees were educated in the distinction between the Religious Institute and the corporation. As a religious institute, the Franciscan Sisters of Mary were canonically responsible for the apostolate of their order. SSMHC, a civil non-profit corporation organized according to the membership model, was the instrumental means that the Franciscan Sisters of Mary chose to carry out their apostolate. The corporation, by the terms of its own legal documents defined its Catholic identity which informs its legal purposes and the criteria of decision making for Members, Directors and employees. Therefore, fiduciary duties were defined by the corporation’s identity and purpose. This provided for clear boundaries between the religious institute and the corporation and clarified internal corporate expectations and practices.

"We must acknowledge pluralism of those we serve, of employees and values in the market place." In order to have well-informed employees, the Office of Stewardship
needed both (i) to explain CST and Catholic ethics and (ii) to facilitate a comparative discussion with other traditions in order to establish the distinctive identity of SSMHC and understand its similarities to and differences from non-Catholic approaches to the same issues.

"We are not proselytizing." All activities concerning the integration of values would be done in the context of and as a part of the employment relationship. The "integration of values" was not implemented as a means of catechizing employees or invading their own religious belief. Employment policies needed to observe and be consistent with the law governing employment relationships and the status of the corporation. In practical terms, this meant that employment policies focused on observable behavior rather than individual beliefs. Behavior expectations were stated in nonsectarian language. Moreover, the corporation did not establish or observe religious criterion for professional advancement and/or leadership.

"We need to integrate CST into decision making questions that are real." For example: unionization setting wages and benefits, establishing severance policies, downsizing, criteria for joint ventures, etc.

II. SSMHC's Subsequent Engagement with CQI

In 1990, Sister Mary Jean Ryan and another senior executive, Bill Thompson, introduced "Continuous Quality Improvement" (CQI) as the system-wide management strategy. In their 1998 book, Sister Mary Jean Ryan and Bill Thompson define quality as follows:

The goal of quality is to understand what the customer wants and then meet or exceed those wants by designing and redesigning processes to continuously improve the product.10

Combined with an analytical approach known as "systems thinking" or "systems analysis," CQI formed the basis for a wholesale reevaluation of how SSMHC managed its activities. This management approach for a large healthcare system entailed the education and engagement of workers at all levels throughout the entire hospital system. The success of SSMHC's implementation of CQI has been documented in a recent public television program, as well as in other news media, and has been validated by SSMHC's receiving the Malcolm Baldrige Award.

While acknowledging SSMHC's achievements, we believe it is important to ask whether CQI had in anyway superceded or supplanted the emphasis placed on Catholic social teaching in the early years of SSMHC's history. Our preliminary findings (which, as of the date of this summary, are based on review of written documentation and the partial completion of a set of in-depth interviews with key personnel) are the following:

- The president and executive management of SSMHC interviewed to date remain deeply committed to the core values of CST even when they do not specifically identify the

10 RYAN AND THOMPSON, supra note 7, at 9.
reasons or methods for their decisions in terms of the language of CST. They were able
to identify and justify significant legal and economic decisions currently made by the
corporation that were made consciously as a result of keeping their “sacred promises.”
The decisions were clearly different from “industry norms” and involved costs and risks
to the corporation.

- To a perceptible extent, the early training in CST influenced the attitude of the Members
and the Board of Directors to CQI. When the executive management team initially
presented CQI to the Board, the Board expressed concern that CQI was better suited to
manufacturing and similar industries than to a healthcare system that espoused the values
that SSMHC had adopted.\textsuperscript{11} As a result, the management team undertook a rigorous
comparison of CST values and the methodologies and goals of CQI. This process helped
the management team to articulate in express terms the connection between CST and CQI
which they had hitherto understood on an intuitive basis. Once this exercise was
complete, the Board did not hesitate to approve the CQI methodology.

III. The Emerging Questions

If one regards the initial development of the Office of Stewardship as the first phase of
SSMHC's corporate development and the adoption of CQI as the second phase, it seems fair to
say that SSMHC is now entering a third phase. Based on the interviews we have conducted
to date, we perceive "Phase Three" as characterized by changing leadership, a less formally
structured education in CST, the gradual loss of CST language and the emerging dominance of
CQI language.

We note that the interviewees perceive Catholic identity as having been and continuing to
be preserved through their decision-making, despite the fact that CST figures much less
prominently in ongoing management education and that CST vocabulary is no longer in
widespread use. The interviewees believe that SSMHC has continued to operationalize the
substantive values of CST.

At this point, the questions that are emerging for consideration in the final paper are the
following:

1. Is it necessary for CST values to be articulated explicitly in terms of
Catholic theology, philosophy, anthropology and/or scripture in order for an
organization to understand the distinctiveness of its Catholic identity? Is the
original premise of the initial Office of Stewardship correct, namely, that in order
to lead and operationalize a specifically Catholic identity, the leaders of a
 corporation must have a sophisticated understanding of the content of Catholic
social thought and principles in comparison to other approaches?

2. If a Catholic organization follows CQI as a management strategy, will the
values and decision-making process implicit in CQI analysis necessarily promote
the same values as CST?

\textsuperscript{11} Id. at 23.
3. Given the predominance of CQI language at SSMHC, how will an understanding of the content of CST be transmitted to new generations of corporate leadership, who may have no institutional history with SSMHC or the Franciscan Sisters of Mary and, in some cases, may have no affiliation with the Roman Catholic Church?
1. The aim of this essay is to address the problems regarding the maintenance of a religious identity or inspiration by religiously affiliated entities which operate in the field of healthcare both in Italy and in the U.S.A., and to propose a comparison between the two juridical systems.

The Church has to face a number of challenges, in a deeply secularized context, in order to continue to operate the service of apostolate, that is an important part of its mission. Healthcare is one of those sectors where interconnections mostly happen between civil law and the need of religiously affiliated entities to maintain an area of speciality or to ensure that some identity aspects, which are connected with the specific religious affiliation of the entity, receive protection, and to have access to the (legal, fiscal and economic) benefits offered by the State.

Healthcare activity is particular for higher costs of management of its structures and high level of competitiveness in comparison with other entities that offer similar services. In a comparative study of the two systems a common trend appears: in the last years an increase of healthcare expenses, the inadequacy of a public budget to cover it, and the consequent need of a more rational offer, that should be modelled on patterns of managerial organization, have been recorded.

In the U.S.A. the healthcare system is basically founded on private insurances (Consumer Sovereignty Model or Modified Market Model), whereas State interventions have an integrative character, and they just cover costs of certain classes of people by specific programs (Medicaid, Medicare), even though nowadays public interventions have increased, in order to develop the social and solidarity aspects of the system.

In its turn, Italian law is inclined to abandon the Welfare State model, striving to put into effect a system based on an effective competitiveness between private (that embrace also private-religiously affiliated) and public entities; on one hand, this should guarantee a better allocation and quality of services, but on the other hand this imprudently and without careful meditation brings our system closer to the American model, risking to put into effect an enterprise model of healthcare that penalizes lower classes.

2. Even though they operate in different legislative systems, religiously affiliated hospitals are organizations where profit-making purposes have not (or should not have) a prevalent role and neither do they accept only adherents to a specific creed, nor are they an environment devoted to proselytism. Besides, the possibility for Churches to have direct access, or not, to forms of public funding undoubtedly affects the explicitation of the religious affiliation of their apostolates.

Religiously affiliated hospitals operate in different healthcare models, where there are different levels of State involvement in the programming of their healthcare offer. The adjustment in a pluralistic healthcare system, that integrates public and private, for profit and nonprofit, religious and secular entities, and the possibility to have access to forms of
public funding, imply public and private forms of control on the activity and with respect to technical – qualitative standards.

Religiously affiliated hospitals are currently being transformed into business which have to coordinate their traditional role of assistance apostolates with the needs of efficiency and effectiveness in order not to be excluded from the healthcare market, to have access to public funding, to be included in healthcare programming; as all these factors decide the survival of an institution. This situation has unfortunately caused the closing, restructuration or sale of some religiously affiliated hospitals to the State or to private owners for profit-making institutions.

Besides, some religiously affiliated hospitals could provide operations that are in conflict with religious, moral and ethical values, in order to guarantee the most comprehensive healthcare offer. The ratio of efficient management introduced by the d.r.g. (diagnostic related groups) system could imply the risk that hospitals might operate a “selection of pathologies”, in order to secure the most remunerative cases, putting aside the less fortunate ones, or those that can cause excessive expenditures: e.g. long term or terminal diseases. The strictness of the d.r.g reimbursement system and the consequent trend to shorten the periods of stay in hospital can cause sending home diseased people prematurely, without taking into account circumstances and conditions that can vary from person to person.

In the end, a healthcare system where healthcare operators have to be “productive” can make the doctor-patient relationship and the trust on which it has to be founded deteriorate.

3. The Catholic Church refuses a perspective where health is a “commodity to be produced on a pluralistic market”, and understands the risks of healthcare models where economic results potentially incline to be preferred to the care of the person.

The Church underlines the central role of the person, in its whole and in every decision process, and the recovery of an idea of the healthcare world as “cross-roads of mankind”, where the Church has to offer the light and the guidance of the Gospel, and to recover the value of hospitality, that is to say listening, reception, and humanization of healthcare in all its periods (prevention, care, rehabilitation). This appears of particular relevance in an age distinguished by the “weakening of ethical consciences” and by the “subjectivism of consciences”, that renders more difficult the singling out of a “ shared ethos”, most of all in connection with the great existential and eschatologic questions. Even though the Church appreciates the scientific-technological improvement in the medical field, it refuses that “sort of prometheic attitude of man” that induces people to regard themselves increasingly as arbiters of the beginning and the end of life, being unacquainted with the limits of the human condition; at the same time the Church rejects the self-asserting “medicine of wishes”, which causes a trend to remove mentally the conditions of pain, disease, and disability.

Catholic healthcare institutions have to be a “gift of God”, in a pastoral perspective where health is the “penultimate good” in a hierarchy of values at the top of which is the “total well-being of a person”.

These institutions coherently shrink from both an excessively managerial healthcare model (the “no margin no mission” model), and those dangerous “too homologating (or, in another way, equalizing) fluxes of the general (even if divided and/or localized) teachings”. The integration of all the entities in unitary categories (for example “non-profit”, “integrated delivery systems” “classified hospitals”, “business” institutes of scientific nature for the
hospitalization and care”, and so on), causes in fact the risk of the loss of some aspects of the “specificity” and of the original charism of religious entities.

An analysis of the pastorate/management difficult combination is appropriate, and an exam of new forms of equilibrium between the values of human dignity, solidarity, subsidiarity, preferential option for the poor and the needs of a productive business, competitiveness on the market, balancing accounts, “objective profit”. The aim to pursue is a healthcare of excellence, that nevertheless maintains and promotes its humanitarian richness.

4. In this perspective, a core of non negotiable values that should inspire the organization, the management, the activities and the relationships, not only with the staff and sick people, but also with other institutions, both public and private, that operate in the healthcare field, is gradually being defined in the catholic context. For this purpose, some aspects will be verified, as they are suitable for the maintenance of the religious identity of hospitals.

First of all, we will examine the preparation of the mission statement, where the values to which activities and decisional policies of the hospitals should be inspired are defined. This is the most efficacious means to maintain the identity, as in the mission statement the purpose to conform the healthcare business to the mission and teaching of the Church becomes explicit.

The religious hospital, when it operates, has to be consistent with ethical-religious values that should permeate every authentically defined catholic institution; it should not be exclusively conditioned by the dynamics of profit, but it should be guided by the logic of solidarity and charity.

Secondly, the education and the selection of the medical, administrative and managerial staff takes on great importance. Within the ecclesial community, the Church encourages lay people to “overcome the barriers formed by a long tradition of passivity, and assume the role that belongs to them”. Lay people have to be more involved in catholic healthcare institutions and their not only professional but also human training and education have to be taken care of. The knowledge and competence in the field of ethics and catholic doctrine will therefore be of essential importance in order to define the policies and strategies of a business. Nowadays it’s increasingly important to extend cooperation of lay people also at an executive level, and to educate new catholic managers, trained to cooperate with religious people and also to replace them, and to work out new creative forms of administration and control of ecclesiastical assets.

Specific relevance will be given to a comparison between the juridical instruments that are available for the Catholic hierarchy in both American and Italian juridical systems, concerning the ways of control of activities and property, as a means to influence the most important decisional choices of the hospital.

In both systems, in the framework of different Church-State relationship models, the Churches can use different forms of civil organization and civil means of control in order to maintain control over their own apostolates. Nevertheless, in both systems the Catholic Church is investigating new forms of organization in order to develop secular apostolates. These organizations should both satisfy the need of a more flexible administration, and follow the Vatican directive to develop a “new fantasy in charity”, even if they should not
loose those particular identity aspects that distinguish a religiously affiliated institution. We should also analyze the forms of cooperation between religious hospitals and secular (also for profit) hospitals whose purpose is to continue to operate some apostolates. The Church gives a positive appraisal to the sharing of experiences, resources and projects, but partnerships can sometimes give rise to the risk of openings to morally illicit operations. For these reasons, the effect of partnership on an institution and on the development of the healthcare market in that specific geographical area where the original institution operates during the long period has to be carefully considered.

5. The Church is aware that its institutions cannot come to be a “party-spirit healthcare” and cannot follow a policy of isolation, but they have to integrate into the complex context of the healthcare offer. The aspect of ecclesiastical property is nowadays only one element (and not the most important) of religious identity. This factor has to be considered in a secularized context of activity, taking into account both internal aspects (organization, administration, adherence of the staff to ethical-moral principles, catholic doctrine regarding healthcare) and external ones (State laws, forms of State control, pressure of the market). The fact that a hospital has its own autonomous juridic status is less relevant, as the Church is developing the awareness of the need to share the power of decisions. The religious entity (even if it is the owner, the founder or the administrator) will inevitably not be able to have exclusive control over the hospital, but it will have to accept cohabitation with internal influences (the staff, the chief executive, patients) and external ones (public and private agencies that supply forms of funding, other -religious or not- hospitals, that put themselves on a competitive level) even if all this happens respecting the purposes of the institution.

Church apostolate in the healthcare field is therefore being increasingly outlined not as a form of exercise of a (social, economic, politic) power, but essentially as a witness of charity ad service.

6. Efforts directed to humanize healthcare, to conceive hospitals not only as businesses but also as systems of relationships and means of the promotion and development of personality, and to give back to the patients the role of protagonists in healthcare activity, do not come exclusively from religiously affiliated organizations.

For these reasons it is appropriate to find a connection between Church and State interests (not only in its institutional aspects, but also in its community ones), in order to pursue the aim of the “common good”.

In both juridic systems, at a social-juridic-economic level, consciousness has been developing (or returning) that the product offered by healthcare providers is a particular one; the health good cannot be totally linked to the logics of the market. Requests (both public-institutional and social-community) to estimate (public or private) businesses on the grounds of their ability to generate a value for the community where they operate are increasing, that is to say not only value as the profit, but also as the ability to give social answers. Healthcare businesses can be qualified as systems where there is a plurality of individuals, that generate and have interests, and that at the same time are actors in order to reach these aims. They are defined as stakeholders, and their needs and expectations have to be satisfied, in the framework of a process of the balancing of interests and values.
Even though the operative contexts are different, demands of both internal and external (institutional, social, managerial, professional, personal, and nowadays also inter-institutional) accountability have been developing. Demands identifiable in the ethic dimension of the operative processes of the business and in the principles of social responsibility are growing, and they involve evaluations on the correctness and transparence of business action and operative processes, monitoring of the quality, control over administration, on the effective achievement of the programmed aims, on the social impact in the long period. In the end, these demands urge businesses to a progressive responsiveness (that is something different and more than responsability) concerning their policy, their relationships, forms and results of their actions and the social-solidarity effects of all these, also regarding ethic aspects.

With regard to this, in both systems legislative initiatives have been developing; proper tools and (internal and external, public or private) bodies of control and supervision are being established; forms of incentive coming from both public-institutional agencies and the market are also evolving, in order to reward the ethic policy of a business and to promote a more equitable and democratic healthcare system.

Both juridic systems seem directed to promote new forms of social action, understanding expectations that nonprofit/religious organizations have had for a long time. A careful lawmaker grasps the importance of the support that religiously affiliated organizations can give, and emphasizes religiously founded nonprofit organizations, giving them the chance to operate on an equal level with secular ones and requiring them less and less frequently to renounce their inspirations and ideals. This is happening recently, as a strong input has been given to laws about social cooperation (in Italy) or about charitable choice (in the U.S.A.).
Fostering Middle-Level Thinking in Catholic Healthcare: An Evaluation of One Health System’s Leadership Development and Formation Efforts
Cindy Heine

Catholic healthcare exists to extend the healing ministry of Jesus Christ. Catholic healthcare within the United States was initiated, grown and sustained by religious orders of women and to a lesser extent religious orders of men. Today, Catholic healthcare in the United States, from its humble beginnings, is now a major provider and employer within the US healthcare delivery system. Catholic healthcare represents 14.9 percent of all hospital beds, 15.5 percent of all admissions and 14.4 percent of full time equivalent staff of all community hospitals.

This ministry of the church increasingly finds itself serving in a very commercial, highly regulated environment making the perpetuation of ministry values a challenge. Adding to the complexity is the declining number of women religious within the sponsoring congregations. One of the most critical issues facing Catholic healthcare in the United States today is the formation of lay leaders. The history of the Franciscan Missionaries of Our Lady Health System (FMOLHS) parallels that of the larger ministry.

FMOLHS was formed in 1984 by the Franciscan Missionaries of Our Lady, North American Province, to ensure the perpetuation of its mission through its sponsored organizations. A ministry that began in Louisiana over 95 years ago with six sisters has grown into a significant organization serving over 40 percent of the population of the state of Louisiana. Today FMOLHS remains a single sponsored health system, with assets over $1 billion. In all of the four major markets, the sponsored organizations are one of the largest employers, if not the largest.

Catholic healthcare in the United States has seen a dramatic increase in the number of hospitals and health systems focusing on the development and formation of ministry leaders. Simply put, the Catholic healthcare ministry in the United States needs middle level thinkers. As the number of religious within the sponsoring congregation diminishes and the complexity of the healthcare industry intensifies leadership formation is a ministry imperative.

Like most of the Catholic healthcare ministry, FMOLHS has seen the development and formation of the next generation of ministry leaders as an important and urgent need. The focus of this paper will be the leadership development and formation within the Franciscan Missionaries of Our Lady Health System. My Pathway to Franciscan Excellence (MPFE) is the name given to the organization’s efforts related to development and formation.

MPFE is a system-wide individual development process with tools for assessment, development planning, education resource identification, and development coaching. Its purpose is the formation of individuals in Franciscan values. There are eight competencies within the FMOLHS framework designed to encapsulate the three daily tasks of every employee: 1) remember the mission, 2) be of service and 3) take care of the resources. The competencies are as follows: Relies on Spiritual Grounding, Demonstrates Integrity, Extends Hospitality, Builds Relationships, Responds to Needs, Sustains Priorities, Seeks Excellence in Performance and Achieves Measurable Results.
Leaders of others (managers and supervisors) and leaders of leaders (divisional directors, vice presidents and chief executive officers) are being assessed against these competencies in what is called a 360 degree feedback process. A 360 degree feedback instrument is designed to provide confidential input from all vantage points (360 degrees) of one’s behavior. Input is gathered from each person’s peers, subordinates, supervisors(s) and others.

Each individual is provided a hard copy of their results and is given one-on-one coaching on how to interpret their results. This coaching should result in the selection of some areas of focus for development. A draft of that plan is shared with the supervisor, who then approves the Pathway Plan with a six-month check-in time built into the process.

The operating thesis is that the organization’s efforts, related to My Pathway to Franciscan Excellence, have a positive impact on making a good company. Various components of the My Pathway to Franciscan Excellence will be critiqued for their ability to assist in the development of middle level thinking, as well as their congruence or non-congruence with corporate social responsibility and Catholic social teaching through the three specific questions listed below. This paper and its findings are part of a larger organizational continuous improvement effort, called a post-audit, of which this paper serves as one aspect. A post-audit process has been used in many businesses to confirm the expected return on investment and to capture organizational learning in order to improve the organization.

**Question 1: Does My Pathway to Franciscan Excellence promote the principles of the Catholic social tradition and corporate social responsibility?**

Through My Pathway to Franciscan Excellence, the organization is attempting to balance the needs of the individual, specifically the developmental and formational needs, and the needs of the organization. Human dignity and the common good, the master principles of the Catholic social tradition, are the underpinnings of these efforts; therefore, this paper will focus on these two master (or first order) principles.

Pope John Paul II, through his teaching and writing, further developed the Catholic social tradition by distinguishing between the first and second order principles. The second order principles help to lend specificity to tasks that must be in place for the first order principles to be present. Likewise, while the focus of this paper will be the first order principles, through the description of specific processes and tasks, the secondary principles such as-the subjective dimension of human work, participation, subsidiarity and the social nature of the organization-will be apparent.

The Mission Statement of FMOLHS directly addresses the first order principles of human dignity and the common good as it calls forth all who serve in this healing ministry to share their gifts and talents and as a healing and spiritual presence for the communities they are privileged to serve.

Human dignity is evident within the development and articulation of the eight competencies. The principles of human dignity and the common good are implicit within the competencies themselves. This is manifested in the organization’s interest in the personal and professional...
development of the individual employee. Within the competencies is the recognition of the employee as a spiritual being and the focus on service to others. It could be argued that the organization’s interest is self-serving and there is truth in that; however, the overall design of the process is created to support the dignity of the person, as is evidenced in the details of the process design. Human dignity is supported in the one-on-one coaching that is provided. Human dignity is also supported:

- In the opportunity to give honest feedback to a co-worker.
- In the overall institutional policy that one’s pay or salary increase is not dependent on one’s scores on the 360 instrument
- In smaller, “quiet” ways, such as hard copy assessments being made available to workers who do not have computer access.

In the summer of 2006, FMOLHS conducted what is known as a post-audit on the My Pathway to Franciscan Excellence. The post-audit is designed to determine if the organization was wise in their decision to move forward with this effort, and whether it would be prudent to continue. The post-audit focuses on the common good of the organization.

Within this post-audit process, both participants (those being assessed) and responders (those doing the assessment) indicated positive attitudes about both the confidentiality of the process, and the overall appropriateness of the MPFE process. These results are shown directly below.

- More than 80 percent of people from both groups felt the process was confidential.
- Over three-fourths of the participants felt that the MPFE process is used strictly for employee growth and development.

Post-audit reports also indicate that the process is falling short in several areas as well. The two main areas were in the follow-up by supervisors and in the creation and development of Pathway Plan. Only 26 percent of participants somewhat or strongly disagreed that they had “adequate help and resources” to create their plans. This is perhaps the weakest link in the process. More than 50 percent of MPFE participants indicated that they somewhat disagreed, strongly disagreed or did not complete a development plan when asked if they had “at least one follow up session” with their manager to discuss their progress in their development plan. The organization is running the risk of minimizing the value of the individual by setting an expectation and not delivering on that expectation.

It should be noted that human dignity and the common good are both supported within the overall concept of the post-audit. Not only did FMOLHS ask a minimum of 15 people to assess each of the 350-plus leaders, it has also taken the time to ask if the process is working to solicit employee feedback on how to improve.

It is a very fine balance to maintain between human dignity and the common good. It has similarly been a very delicate balance to maintain MPFE as an individual development process that has organizational implications and value. Perhaps the most difficult aspect of this comes in accountability.

Who is ultimately accountable for an employee’s development? The obvious answer is the employee, yet the organization’s improvement depends upon the employee’s development. It
would be ludicrous for the organization to believe it can force an employee’s development. What role does the supervisor play in an employee’s development? What role does the organization play in an employee’s development? The organization does have an obligation to be clear about its expectations and to foster a work environment that encourages employees to strive for improvement. In the case of a Catholic institution, this kind of work environment allows employees to participate as fully as possible in creation through work. The tradition is clear: human beings have priority over things.

The organization’s use of the 360 degree feedback results is in aggregated form. This has allowed the organization to determine where the strengths (or weaknesses) lie within a particular band of management or a particular facility. With this data, educational opportunities have been developed to specifically address areas of focus. Raising the competency of the whole helps to improve the organization as a whole: its focus is the common good. After many discussions and consultations, it was decided that this information could be used in succession planning as well. In order to maintain confidentiality while utilizing the information in succession planning, individuals were listed in ranges of scores on their 360 instruments. No specific individual scores are shared. The post-audit results also illustrate that employees that have been promoted are also the employees with high results on the assessment instrument. This indicates that the use of the data for organizational purposes does bring value to the firm as well as to the participating individuals.

Milton Friedman suggested that the social responsibility of business is to maximize profit. Alford, Sena and Shcherbinina suggest that the dominate model of business within corporate social responsibility is the concept of business as a nexus of social contracts. Combining the ideas of maximizing shareholder profit and social contract can help shed light on important aspects of corporate social responsibility within this analysis.

In a non-profit organization, the community takes on the role of the shareholders. The goal of any non-profit organization is to maximize the benefit it can bring to the community it serves. Catholic healthcare is a business, a nexus of contracts. Catholic healthcare has not only a contractual obligation, but as a visible, tangible sign of God’s healing presence: it has a deeper obligation, a covenant. Catholic healthcare, as part of the church, continues to fulfill God’s covenant to God’s people to always be with them. So how does a non-profit, specifically FMOLHS, go about both these secular and sacred tasks, and how does My Pathway to Franciscan Excellence aid in that process?

FMOLHS is a large and influential organization within the state of Louisiana. It represents a significant segment of the state’s healthcare industry and as previously stated is a large employer. Even as a non-profit organization, economic analyses reveal that it has a significant positive economic impact in the communities it serves. What makes an individual development/formation process a better community investment than another building or a new piece of equipment?

An over-simplified example, will illustrate this point. If managers can more effectively communicate expectations to their staff, in a candid and respectful manner, employees are more satisfied and fulfilled which lowers the cost of employee turnover, and saves the firm money.
Patients have a better experience and become more loyal to the organization, increasing the amount of business (income) for the firm. The result is a more efficient and more profitable organization that maximizes “shareholder” value.

**Question 2: Is My Pathway to Franciscan Excellence a sound example of middle level thinking?**

The 360 instrument utilized in *My Pathway to Franciscan Excellence* is an example of middle level thinking. The 360 instrument takes the eight competencies, which are broad categories and develops specific behaviors, and observable measures of those behaviors. The 360 tool attempts to bridge the gap between ideal broad categories and measurable behaviors.

One example is the competency of “Extends Hospitality.” The behavior is to consistently exhibit caring and respectful behavior. Measures of consistently exhibiting caring and respectful behavior are: Treat all people with dignity and respect, Strive to make all feel welcomed and valued, and Seek opportunities to provide comfort and help. This is an attempt by FMOLHS to move from behaviorally thin expectations to behaviors that can be seen and measured. Post-audit results indicate this has been accomplished.

**Question 3: Will the efforts related to My Pathway to Franciscan Excellence make for a better, more socially responsible, organization?**

*My Pathway to Franciscan Excellence* does make FMOLHS a better company. According to the post-audit results its major contributions have been to bring increased awareness about the mission and core values and to clearly articulate expectations. The evidence provided by the post-audit suggests that *My Pathway to Franciscan Excellence* does help the organization to be clear about its intentions. It does help to develop the critical thinking and prayerful discernment skills necessary for middle level thinking.

It makes for a more socially responsible company when the competencies and their associated behaviors are integrated into the daily life of the organization. To be sure, some of this will come through the execution of bold strategies, but it will also come from the selection of new hires, coaching of staff, honest budget conversations in the boardrooms and at executive tables about and how much money is too much, and in the selection of case studies used in ethics training, etc. This integration is the point of leverage for FMOLHS as it determines its next steps on the *Pathway to Franciscan Excellence*.

In summary, *My Pathway to Franciscan Excellence* has helped make FMOLHS a better company. It has the potential to do even more. The more important question that this case study brings forth is whether being a good company is good enough? Why not strive to be a great company? What will it take to become a great company? It is simple-unwavering consistency by individuals, and the organization as a whole, in applying the Church’s teaching to everyday management issues, as well as, larger strategic ones. It is a simple task, but not an easy one. The perpetuation of the healing ministry of Jesus Christ deserves no less effort.
We basically assume that what makes a “good company” are the concepts, principles and views that orient and influence its practices and policies. Company’s activities and attitudes are natural consequences of both employees and decision makers. This view stresses the importance of people’s assumptions regarding the issue of providing good and ethical service for society, as well as the provision of other socially expected benefits and the satisfaction of population’s needs. This premise leads naturally to the issue of the formation of managers in business schools and other types of qualified professionals at the college level, who in the future, will work for a private or public company. So, Catholic colleges and universities have a major role in preparing new professionals with a vision based on corporate social responsibility (CSR) and Catholic social tradition (CST).

The purpose of this paper is, first, to explore some concepts and conditions for Catholic colleges and universities, so they could be considered “good companies” themselves. Second, is to outline some initiatives they could take to offer to their internal community of faculty, personnel and mainly to students through curricular activities, and through other opportunities aimed at providing society with new professionals with a cooperative social vision. Other possible activities directed to the external community are also mentioned. Third, to provide a description of the approach and initiatives the Pontifical Catholic University of Paraná – PUCPR has given to the issue of “formation for solidarity”. Two major initiatives will be focused: the Program of Environment and Community Action – Pro-Action, and the Communitarian Project, a two-credit practical activity required for all undergraduate students.

1- Concepts and conditions for a university to be considered a good company

It is in the relationship with a specific society, of which it is part, that the University builds itself as a social entity, and at the same time plays its social role. This social role involves the way students are educated, the way business is conducted, and the type of services provided for the outside community. Together with the goals of teaching and research, the provision of community services is considered a major role of a university in developing countries.

Hence, the university can be considered a good company in different ways: by its nature, objectives, organization, mission, being a school to itself, and through the relationship with the internal and external community.

a) Nature of a university -When the university, as we know it, appeared in Europe it immediately acquired a corporate status vis a vis the State (Monarchy) and the Church. It has been ever since a place for free thinking and acting. Malik (1982) considers the university as “one of the greatest creations in Western civilization”, along with the family, the church, the state, the economic enterprise, the professions, the media and the university”.

But in today’s developing countries the university is also called to be a social and humanitarian institution beyond its educational mission. This role can be seen either way as a
failure of the State in providing basic social services or as a sign of society’s democratic maturity and university’s commitment toward it.

b) **Objectives of a university** - The main objective of a university is to form good people, being them professional and ethical. University’s inputs can be measured in terms of students enrolled while output is the quality of professionals and leaders who arise from the formation received through education. Actually, what matters is the output, but it is difficult to quantify the results once the output of a university is qualitative. Is has been argued that the major indicators of university quality are the quality of education its students receive, and social tuning or the search for concrete and effective answers the institution provides for today and tomorrow’s mankind needs. It is not easy to measure the levels of knowledge acquired by the students; marks and scores and other forms of academic assessment act merely as signalling. But the commitment towards excellence in education and services for all students are a necessary, although not a sufficient condition, to be a good company in the sense of the Catholic Social Teaching.

While offering educational services it needs to achieve a few objectives as in any other enterprise: quality of services, timing on delivery, reliability, flexibility, feasible costs of services, feasible fees, performance improvement, and long term survival in a competitive world. It can identify the diversity of interests from both the internal and the external community.

c) **Organizational framework, infra-structure, facilities and services of a university** - In economic terms a university is no different from any other enterprise with the challenge to reach the above objectives. In order to be a good company, it is faced with the challenge of treating professionally the students, humanly, employees and with fairness its suppliers. This effort requires an organizational structure and efficient and effective use of competitive factors of production. All this can, and indeed must be, synchronised with a strategic plan which needs to be ethical above all and be part of the written and practiced mission of the institution.

d) **Mission of a university** – As a Catholic University PUCPR is aligned with the social teaching of the Catholic Church. Output in the social sector is understood as the results and efficiency in delivering on the social mission: a social enterprise has to question regularly how it is effectively delivering on its mission and making a distinctive impact, relative to available resources. So it is more important to assess performance of a social organization in terms of mission accomplishment rather than to financial returns. What this means is that there must be a commitment to the mission and institutional objectives. It seems that PUCPR accomplishes that through its mission stated as: “The Pontifical Catholic University of Paraná oriented by Ethical, Christian and Marist principles, has the mission to develop and disseminate knowledge and culture and to promote the whole and permanent formation of citizens and professionals committed with life and with the advancement of society”. Within this mission statement PUCPR is committed to social justice, according to the teaching of the Church, in both the process itself and the results of education. The mission can be accomplished by different people collaborating at all levels in the internal hierarchy.

e) **Being a school to others and to itself** - A university, by its own privileged nature, is challenged to be a centre of excellence not only in the production and dissemination of knowledge, but equally on applying this knowledge to its administration, being this any type of knowledge: scientific, philosophical, aesthetic, religious. Having social and ethical commitment the university
cannot do without planning and controlling quality, preventing and correcting mistakes, and continuously assessing performance as any other enterprise.

f) The relationship with the internal and the external community - A university needs by nature to be accountable to the society. It can be, at the same time, business minded and honest in the relationship with customers, suppliers and the government, offering them prompt payment, having transparency on cost data, and on honouring tax obligations. Items 2 and 3 below describe the relationship with the internal and the external communities.

2- University as a good company through initiatives to the internal community

Being a school to itself, above all, involves considering the way it treats employees and academic staff. A well trained and flexible labour force and managers need to feel secure and committed to the institutional mission. This implies hiring and firing procedures with unmistakable professionalism and a human face, integrity, respect for all employees and customers, and rewarding performance. Expenditure in employee welfare can become an opportunity to improve the image of the university before its employees, academics, students and the external community. It is a combination of willingness, ability and readiness to do so.

The “Identity Project” is a PUCPR project aimed at sharing experiences and challenges faced at work and at inviting faculty and staff members to identify with basic Christian and Humanitarian values within the University. This includes talks and discussions on the criteria for a “good company” which are: leadership, attention to client, social responsibility and ethics, promoting people, the will to learn, allowing for creativity and innovation, good quality services, commitment to ethical attitudes, social awareness, etc.

Other internal initiatives run by PUCPR show the same solidarity dimension. The “Leadership Training Program” spots and selects potential leaders among the students and staff members and give them input on leadership based on CSR and CST. Staff members, who in the past were not able to complete their elementary and secondary education, are given the opportunity to enrol in formal education within the university. There is also a wide range of scholarships to low income students and quotas for social minority groups which will allow them to climb the social ladder through equal opportunity in education. This is part of the philosophy which states that no student will be away from a classroom for financial reasons.

3- Approaches and initiatives for solidarity formation

We challenge our students to be awarded with two degrees at the end of their program work: a professional degree and another of a “good person”. The university expects that by preparing good professionals and good persons, it will help to build and run good companies. So, for us the concept of good company holds a double meaning: being a good company ourselves while educating people accordingly, and promoting the administration of good companies by people who have been educated at PUCPR.

Solidarity is part of what we call formation for life: to develop human and ethical values in the minds and hearts of our students and staff members which include respect and tolerance for diversity (be they based on ideological, cultural, political, gender, racial or religious ground),
individual choices, individual responsibility, professional attitude, sense of mission to better the world, and care for those in greater economic and special needs. The concept of social responsibility is part of the institutional mission which is also present in the *syllabus of Ethics and Philosophy* taken by all undergraduate students regardless of which program they are enrolled in.

The conditions of PUCPR as a good company are based on a proper infra-structure (physical, personnel, material, and legal framework) able to support a variety of initiatives aimed at: a) promoting the welfare of the internal community; b) supporting a variety of curricular activities; and c) providing basic services by faculty, students and staff to the low income people of the external community.

As the university prepares professionals who will take care of their own material provisions and share their income through taxation with those who demand any sort of government help, it also prepares leaders for the private and public sectors, decision makers and opinion formers who will act with professional responsibility once in such a position. Following its Communitarian and Christian vocation PUCPR offers the students an integral education combining purely academic learning with participation in social projects linked to concrete reality, which we consider a necessary condition for a professional formation committed to practice and citizenship.

The provision of community services is an effort to put aside the image of being an “ivory tower” which would otherwise be committed only to the scientific and philosophical rigor, to break down the campus walls and to be close to the man in the street through initiatives and practical experience involving academic staff and students alike with the external community. For that purpose the two following projects are the most visible among others:

*a) The Communitarian Project*

It is a requirement that each student enrolled in any undergraduate program will have to spend 36 hours working with and for low income groups in economically adverse environments, and with non-profit organizations which are registered with the University. Students are aware of the policies, objectives and actions of the project and are free to choose the actions they best identify with. These activities, designed either by our academic staff or by the partner institution, range from remedial classes for children enrolled in basic education in public schools, to sport activities, to entertainment, to orientation on health, nutrition, sexual behaviour, family planning and drug use, and also talks on ethical values and social responsibility. During these activities the University provides the students with transport, meals, travel insurance, and the material needed.

*b) The Program for Environmental and Community Action (Pro-Action)*

This is a multipurpose centre of action in the areas of development, education, environment, sanitation and health (dental, medical, psychological, physiotherapeutic, nutritional orientation). All services and educational inputs are provided free of charge to the external low income community in six different municipalities around greater Curitiba and the coastal region of Paraná state. Whenever possible, PUCPR teams up with some initiatives of government policies at municipal, state and federal level.

*c) “Maximum Grade School” program*

This was an initiative of PUCPR in partnership with two private commercial banks (sponsors) which aimed at giving pedagogic and administrative training and inputs to public school teachers and managers at primary education level. In 10 years time (1992-2002) the program trained about
12,000 professionals and benefited 270,000 students in 65 municipalities around greater Curitiba and Paraná state. By combining high level lectures in education given by top professionals from the university with real daily life experience of educators it had the objectives of improving self-confidence of teachers and students, to promote local initiatives on didactic and educational contents, to re-vitalize municipal schools, to decrease levels of failure and evasion, and to discuss how to improve general condition of the local communities.

In conclusion, PUCPR has extensively discussed with the administrators the best way to put into practice the Corporate Social Responsibility and the Catholic Social Teaching. We think the way described above is the most suitable according to our commitment. In this regard, we sum up to other experiments around the world, with those who are trying up similar or different paths. Thus, our intended contribution is to run a good company for a better world!
Mainstreaming the Catholic Social Thought in a Business School: 
A case of study

By: Alonso Quintanilla Pérez-Wicht, Jhony Velásquez Delgado and Cristian Loza Adauí

While in the last ten years, we have seen flourish several theories and ethical applications in business, a great diffusion of the corporate social responsibility and the release of a series of tools oriented to facilitate the managing of variables of moral character, we also seen that an intent of reaffirm the utilitaristic vision in the search of profit like the unique and main finality of the company has not been completely overcome; the international scandals have continued and the struggle to integrate moral principles into the organizational, economic and social of the business daily policies continues existing.

The role of the business schools in this dynamics has always been the central character, nowadays is well recognize the need to prepare managers able to face a complex reality in which the solutions demand not only single technical but also social and specially human capacities which reflects that the maximization of benefits is important only if this benefit is subordinate to the human person's value in the society and where the long term impact of the managerial decisions look forward to improve the quality of life and contribute to a company’s sustainable growth.

In this context the responsibility of the Catholic University was already expressed in the Declaration on the Catholic Education Gravissimun Educationis of the Second Vatican Council: “The Catholic University may achieve, as it were, a public, persistent and universal presence in the whole enterprise of advancing higher culture and that the students of these institutions become people outstanding in learning, ready to shoulder society's heavier burdens and to witness the faith to the world”.

San Pablo Catholic University (UCSP) was born as an educational and cultural project that look forward to the humanistic and professional human person’s formation and to develop cultural and research activities in order to contribute to the construction of a better society encouraged by the orientations and life of the Catholic Church. The search for the truth in the light of the faith and with the effort of reason promotes the formation of the whole person.

The UCSP was born in Arequipa – the second more important city in Peru – in January of 1997; in November 1999 was recognized as a Catholic University by the Archdiocese of Arequipa and in September of 2003 the Peruvian Government granted UCSP full autonomy according to the Peruvian legislation.

The UCSP began its educational activities with two professional programs: Business Administration and Accounting; later on, in the year 1999, was authorized to operate a third professional program: Computer Engineering. In the year 2004 two new professional programs were added: Law and Industrial Engineering. Telecommunications Engineering is the last professional program created in the year 2005; in the same year the University began the construction of a second campus in downtown Arequipa.

From their beginnings UCSP intends mainstreaming the contents of the Catholic Social Thought (CST) in its main activities, but due to circumstances as the education urgencies and students formation, the limited resources UCSP had at that time, the lack of institutional autonomy and the reduced size of the organization – among other –; the integration of the
contents and principles of the Christian Social Thoughts didn't respond to a specific plan, on the contrary there were measures and actions taken to contribute in the formation of this principles in isolated areas and moments. All this work has been important and decisive in the formation of the human person in the diverse specialties, not only in a technological but also a human level.

Setting the goal to obtain information of the activities realized and to know how those activities could have modified the reality of the society, and remaining faithful to the CST it was concluded that there was a necessity to make a balance of the activities carried out until today, this will facilitate the development of a “mainstreaming” project of the Social Christian Thought in the UCSP that allows students, professors, administrative workers, as well as other members of the university community, to implement oriented tasks to integrate and to consolidate the social teaching of the church in the daily university activities.

To achieve an integral approach to the daily university tasks, the mainstreaming project should embrace the diverse dimensions of the institutional life which have been contained in: an organizational dimension, an academic dimension and a social dimension. It is important to keep in mind that the project has been thought for the UCSP in its different areas, however this work, will focus in the development of the mainstreaming project in the Business and Economic Sciences Faculty with its business administration and accounting programs.

This focus is due to the faculty’s biggest amount of students and because it being the oldest Faculty at UCSP, for this same reason, the prestige that the university has reached up to now responds to the acting of its alumni that are in there majority holders of a business administration degree. In the same way the Business and Economic Sciences Faculty is the one with the biggest number of full time professors and professors of exclusive dedication to the UCSP. For all that it is believed that the opportunities and the biggest social impact can be identified in a better way in the acting of the alumni of this professional programs.

**Organizational dimension**

This aspect of the institutional life involves all the members of the university community, students, professors, executive staff and other people or organizations implied in the operation of the UCSP. Therefore, the mainstreaming project should be reflected in the commitment of the members of the university community to adhere to the principles of the CST in the daily university life.

We should keep in mind that the university is above all an organization, a group of people that should share a common goal: “the whole person formation as future professionals and good men and women”; this is possible only if the university is defined as a community of people to the service of the common good.

The organizational dimension is translated in the different relationships “in” – relations with the personnel – and “out” relationships – relations with the society and the environment.

Inside an organization the human person represent the most important element, one of the more important lines of action for the mainstreaming project, is the demand (from UCSP) to each one of its workers to adhere or at least respect their guiding principles, which are inspired fundamentally by the Apostolic Constitution on Catholic Universities *Ex Corde*
Ecclesiae and in the Social Doctrine of the Church in general; such principles constitute the reason of being of the catholic university.

Outside of the organization, in the relationship of the UCSP with the society, there are a lot of solidarity policy to offer possibilities of studies to people of all the socioeconomic classes, for example the establishment of diverse categories of academic tuitions and a scholarship program; which are structured according to the economic situation of the students family all this as a solution to the economic problems faced by the Peruvian society. Another type of external relationship that the UCSP maintains is the environmental one, to this regard starting in April of the year 2005, UCSP started a progressive transfer to a new campus at a pleasant area in downtown Arequipa. In the content of the new campus architectural project is the construction of green areas, maintaining a full respect for the environment and the habitat surrounding it.

**Academic dimension**

The academic dimension is of central character, although the mainstreaming project is applied to the whole organization, at this level a deeper understanding of each one of the diverse academic disciplines is needed.

One of the big dangers of our time is the fragmentation of the knowledge, that is why UCSP understands that the integration of the diverse types of knowledge around the truth can contribute to enlighten a real understanding of the problem of men.

In that sense, the teaching in Administration of Business and Accounting is framed in a historical and philosophical context, giving wide space to the human sciences without leaving aside the technical excellence in the business. The underlying motivation to this resides in the risk of making of the administration and of the economic sciences self-referent, blinded by a methodological reductionism that makes them unable to interact with other disciplines of the knowledge.

The great challenge of the teaching in a Business and Economic Sciences Faculty, resides in avoiding the frequent fracture between the private and public sphere of the moral life of the students and future professional; a way to carry out such an objective is encouraging an integral approach to the human person in which this persons unfolds even proposing a fruitful dialogue between the convictions of faith and the labor problem.

With the purpose of integrate the principles proposed by the CST in the teaching and to offer a integral formation and possibilities to be inserted in the labor world; the plans of study of the University respond to the desire of a human formation that serves as base for a rigorous specialization in the elected area, this is reflected in the inclusion of humanistic courses in all the professional careers.

For example, in the Business and Economic Sciences Faculty, a course of Social Doctrine of the Church is integrated where to the theoretical teaching of the fundamental principles of the Christian Social Thoughts, are supplemented with a practical part in which the students apply their professional knowledge in the social field like “shanty towns” and areas far away from the city where the inhabitants count with few or lack basic services like nurseries, hospitals and common dining rooms, among others. According to the Movement of Social Action of Arequipa, the students of UCSP contributed approximately with 4981 Euros between 2004
and 2005, keeping in mind that the minimum living wage fixed by the Peruvian Government is of 123 Euros a month.

At the moment motivated more and more by the necessity of deepening in the Catholic identity that characterizes it, UCSP negotiates the formation of some alumni in specialties like Social Doctrine of the Church and Corporate Social Responsibility, assimilating them then as labor work force with the objective of conforming a working group integrated by professors, alumni and students oriented to the review the technical contents that constitute the plans of study of the professional careers – especially the professional career of administration of business – to identify the points in those that the impact of the Christian Axiology and the Social Doctrine of the Church can allow the students to develop a criteria that allow them as future professional not only to act with a high technician but also high moral levels.

Social dimension

Aware of the commitment of solidarity with those in need, the UCSP, responds from different fields; in this context, with the objective of being constituted as a motivation source in the construction of a fair and reconciled society all the students should carry social practice as a requirement to graduate.

These tasks are guided to make the students live an experience off helping people in the attainment of worthier levels of life and it sensitizes them with regard to the reality in which they live and that will be their future working place; likewise, it is intended to make the students responsible – according to the roll that they carry out in the society – to obtain common good. The UCSP is conscient that the biggest contribution of the Catholic education is not in the technical skills but in the development of a judgement that guides the taking of decisions; that’s why the practical experience in which technical knowledge serve to promote the social and economic development of those in need become necessary.

From another perspective, at an institutional level the UCSP supports diverse development projects like the: “Arequipa Reality and Possibilities Calendar for the development of Arequipa 2020”, in which the three more representative universities of Arequipa agree to develop a program of encounters, in which the institutions of the city will have the opportunity to outline their future proposals and arrive to a consensual result that will serve as a guide for the activities of the community toward the outlined, wanted and sustainable future.

As part of the mainstreaming project of the CST in the Business and Economic Sciences Faculty the communication and diffusion of the intention and of the obtained results on behalf of the university in the process of integration of the Social Teaching of the Church to the daily university tasks becomes necessary; this communication requires a periodic character and it should allow to evaluate the advances and realized progresses, from this point of view an annual report should be made containing the activities and reached objectives.

We should have present that a mainstreaming project demands, as it has already been affirmed, the commitment of each and every one of the members of the university community; however, the roll and the main responsibility should be assumed by the authorities of the organization if long term and sustained in time consequences want be achieved; because those in charge of looking after the maintenance and diffusion of the mission and Catholic identity of the university are in the first place its authorities.
Concurrent Sessions III/Sessioni simultanee III
This paper looks at one aspect of corporate activity in Ireland and reflects on it in terms of Catholic Social Thought (CST) and Corporate Social Responsibility (CSR). It outlines the process of 'social partnership' which has been central to Ireland's economic transformation over the past two decades. This process, in its present form, was put in place to respond to a national crisis. It brought together key actors and government who, in effect, worked together for the common good.

Social partnership in Ireland involves employers' and business organisations, trade unions, farming organisations, the community and voluntary sector and government. This paper reflects particularly on the recently-negotiated national agreement *Towards 2016* which provides a framework to underpin economic and social policy development in Ireland for the next ten years. Two key concerns that shaped the development of this agreement are identified and the agreed responses are outlined. The outcomes are then reflected on from the perspective of CST and CSR. It is the authors' contention that while many of those involved in this process may not have paid special attention to this fact, the social partnership process does a number of things that are closely aligned with Catholic Social Thought while also being an exercise in Corporate Social Responsibility by the corporate sector that is far more substantial than even they may comprehend.

Ireland has a national 'social partnership' process in place since 1987. This process brings together government and representatives of employers and business organisations, trade unions, farming organisations and the 'community and voluntary' (i.e. NGO) sector. These are known as the four 'pillars' of social partnership. Government and social partners negotiated six three-year national agreements between 1987 and 2005. A seventh national agreement entitled *Towards 2016*, with a ten-year framework, was finalised in mid-2006 to cover the period to 2015.

These national agreements have covered issues such as macro economic policy, social development, sharing prosperity, wages and employment conditions, social service provision, workplace relations, environment and a range of other related issues. These agreements have been seen as one of the principal instruments for turning Ireland's fortunes from being one of the poorest economies in the industrialised world to its current position as one of the world's leading economies.

Business and employers are represented in this process by a range of social partners including the Irish Business and Employers' Confederation (IBEC), Construction Industry Federation (CIF), Chambers Ireland, Small Firms Association (SFA), Irish Exporters' Association (IEA) and Irish Tourist Industry Confederation (ITIC). These organisations represent almost all the companies operating in Ireland.

Ireland's social partnership process emerged from what could fairly be described as a period of national despair in the mid-1980s. At that time Ireland was in very serious economic crisis. Employment had declined by almost 6% in the preceding seven years. The debt/GNP ratio was close to 130%. Ireland was experiencing recession, high inflation, falling living
standards, rapidly rising unemployment and emigration and a crisis in the public finances. Social partnership played a central and crucial role in changing that ‘basket-case’ situation.

In the development of social partnership and the seven national agreements that have been negotiated and signed since 1987 a key role was played by the National Economic and Social Council (NESC). This body contains representatives of employers' associations, trade unions, farmers' organisations, the community and voluntary sector, senior civil servants and independent members nominated by Government. It seeks agreement on issues of economic and social policy and advises government. Starting in 1986, every three years NESC has produced a strategy report. This is published in advance of negotiations aimed at developing a new agreement between social partners and government. This report provides an agreed analysis of Ireland's situation, a strategy to strengthen what is going well and to address perceived weaknesses. These reports have been very influential in underpinning the subsequent negotiations. The frameworks they have proposed have, for the most part, been adopted and followed in the national agreements.

The remainder of this paper will focus on the recent negotiations that led to the agreement, Towards 2016. In late 2005 during the build-up to the negotiations, there were two sets of issues causing concern to the general public, the government, the social partners and others involved in public policy in Ireland.

1) The fact that, despite having moved from being one of the 'developed' world's poorest countries to being one of the most successful economies in the world with one of the highest per capita income levels, Ireland still had a substantial proportion of its population at risk of poverty, there was an insufficient supply of social housing and more than one in five adults were unable to read a newspaper; as well as this, social service provision and infrastructure development were not at the level expected in a country with this level of income.

2) There was serious worry concerning the danger of a 'race to the bottom' as a number of firms in Ireland had begun to replace Irish workers with migrant labour paying them less than the national minimum wage. There was a fear among many Irish employees that their hard-won pay and conditions were being eroded despite the fact that Ireland has one of the most successful economies in the world at present.

**Balancing economic and social development**

In seeking to address the two concerns identified above, the NESC strategy report and the new national agreement recognised that the economic and the social dimensions of policy development are two sides of the one coin. The NESC report argued that good economic performance and improved social protection are not intrinsically opposed, but neither do they inevitably occur together. Rather, they can be made to support each other where there is sufficient shared understanding and commitment. This, according to NESC, depends critically on recognising that social policy is not simply an exercise in redistributing a surplus, there to be creamed off after successful economic performance.

The very first item listed in the opening paragraph of chapter 1 of the agreement identifies “nurturing the complementary relationship between social policy and economic prosperity” as being crucial if the ten-year framework is to deliver on its guiding vision. For years there has been an assumption that economic growth will, automatically, lead to increased incomes for people generally, which in turn will lead to greater fairness and increased wellbeing for all. This assumption is not valid. Some benefit from economic growth. Others do not. This agreement recognises that social policy must be given equal priority with economic
development if the economy is to continue to develop in an acceptable and sustainable way into the future.

Addressing the social deficits
Ireland is now regarded as a very rich country. Major progress has been achieved in many areas, particularly employment. However, the fact is that Irish society still has many problems, some of which persist almost as if they were acceptable. NESC addressed this situation in its strategy and proposed a new model called "the developmental welfare state". This model was adopted in the new national agreement as the central framework of social policy development. Chart 1 presents the core structure of the model NESC presented. It comprises three interrelated areas: services, income supports and innovative measures.

Chart 1: The Core Structure of the Developmental Welfare State

In building the developmental welfare state NESC has argued that Irish society should take a ‘life-cycle’ approach. As table 1 shows, such an approach would focus on identifying the needs of children, young adults, people of working age, older people and people challenged in their personal autonomy such as those in care. The council suggested that for each group the focus should be on securing an effective combination of income supports, services and social innovations. This approach provides a framework for integrating different areas of policy while ensuring that the needs and concerns of all are addressed. Successfully implementing this approach would underscore each of these groups ability to play a real and sustained role in Irish society and thereby play an important role in tacking social exclusion. It was developed after lengthy dialogue between employers, trade unions, farming organisations, the community and voluntary sector and government. This approach puts the person at the centre of policy development and marks a paradigm shift in how social policy is developed in Ireland.
Table 1: NESC Life-cycle approach to delivering the Developmental Welfare State

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<th>Who?</th>
<th>What?</th>
<th>How?</th>
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<td>0-17yrs</td>
<td>Integration of services,</td>
<td>Governance and</td>
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<td></td>
<td>income support and activist</td>
<td>leadership standards</td>
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<td>measures</td>
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<td>18-29yrs</td>
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<tr>
<td>30-64yrs</td>
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<td>65+ yrs</td>
<td>People challenged in their</td>
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Addressing the danger of a 'race to the bottom'

As the NESC strategy was being finalised and the negotiations were about to begin a dispute involving the Irish Ferries company created significant tension in Ireland's industrial relations and social partnership. Irish Ferries decided to replace its crew with workers from outside Ireland and to re-register its vessels in a non-EU country. This created fears that labour standards in the Irish economy were being significantly undermined by migration and globalisation. The opening of negotiations on a new national agreement was postponed for a number of months. Once they began they became very protracted as employers, trade unions and government sought agreement on labour standards. Eventually, an agreement was concluded.

On the issue of labour standards, Towards 2016 outlines a 'new national compliance model' based on effectiveness, fairness and impartiality and ease of understanding and use. This will involve a new Office of the Director for Employment Rights Compliance, better monitoring and a strengthening of penalties and redress. More generally, there is agreement on the need to monitor changing patterns of employment, including that of migrant workers, and to keep under review the effectiveness of the new measures.

Reflecting from a CST perspective

Without many of the participants paying special attention to this fact, the social partnership process does a number of things that are closely aligned with Catholic Social Thought.

1) It promotes the common good. The participants (including business and employers’ organisations) have now reached a consensus where economic development and social development are seen as two sides of the one coin, where the complementary relationship between social policy and economic prosperity is recognised and is to be nurtured.

2) Social partnership promotes solidarity particularly between different groups in society. Solidarity expresses the moral truth that, in the words of John Donne, "no man is an island, entire of itself; every man is a piece of the continent, a part of the main". In the process that produces these national agreements, in the analysis on which they are based and in the commitments they contain, the various participants have gone far beyond their own primary concerns and areas of interest in order to produce programmes that seek to benefit all members of society.

3) Social partnership seeks to address the issues of social exclusion. A fundamental moral measure of any society (and economy) is how the poor and vulnerable are faring. This is a core principle of CST. While there is much to be done to address the problems emerging from the new economic reality of Ireland today the new paradigm of ‘the developmental
welfare state' (DWS) provides a framework that enables all of these problems to be addressed in an integrated way.

4) CST acknowledges that free markets have both advantages and limits; likewise with government and with the community and voluntary groups. All are recognised as having a role in development. The social partnership process institutionalises this interdependence and mutuality at a national level in Ireland.

5) Subsidiarity is a major theme of CST. In the social partnership process government shares its power with other actors in society. While government always retains the right of final veto, it does involve a wide range of actors, thus promoting the principle of subsidiarity.

6) CST recognises that all people have the right to just wages and benefits and to decent working conditions. These issues have been central to the social partnership process, especially in developing the most recent national programme.

7) Human dignity is at the core of CST. In adopting the DWS approach in the latest national agreement human dignity is placed at the centre of social policy development.

Reflecting from a CSR responsibility
In Ireland corporate social responsibility (CSR) is seen by most people, including businesses, as "...a process in which business contributes to a better society by actively engaging with and consulting stakeholders, including customers, employees, shareholders and the local community, in a manner that goes beyond the company's financial and legal obligations". Many of the social partners in the Employers and Business Pillar of social partnership see CSR in these terms and take action to promote CSR along these lines. Chambers Ireland has an annual CSR awards ceremony. The Irish Business and Employers Confederation (IBEC) established an organisation called 'Business in the Community Ireland' which promotes the concept of good corporate citizenship and funds a range of initiatives in the community.

These and similar developments are important and worthwhile. However, we believe there is more to CSR in Ireland than how it is perceived at present. The social partnership process is a much more substantial exercise of CSR than anything else engaged in by business in Ireland over the past two decades. Its impact on social policy and social developments is extensive. The role business plays in this situation can be a huge force for good or ill. In NESC, business and employers' organisations played a big part in producing the new model to underpin development of social policy in Ireland. The Towards 2016 national agreement may have been endorsed by employers' and business organisations principally because of its economic commitments. Its social impact however is likely to be substantial. Endorsing this agreement, we believe, is a major exercise in corporate social responsibility.
How Can We Measure the Contribution of the Business to the Common Good?
Operationalising the Theoretical Concept of the Common Good

Barbara Sena

The literature on the common good seems to be fundamentally theoretical and abstract, and yet much rich and articulated. To exactly define what the common good is, to operationalise and empirically translate such a definition it appears to be a complex work, much more if a value-based model is not taken or if the concept of the common good is wanted to be applied to every field of the human life.

The aim of this paper consists in trying to link the concept of common good, that is possible to derive from the tradition of the Catholic Social Thought, to that one of Corporate social responsibility (CSR), supplying not only a theoretical definition, but also an operating model that can be empirically translated into a set of indicators.

The relationship between this two concepts, as we will see, has some implications both in the way the concept of CSR is commonly defined nowadays and in methods and most popular indicators that are chosen in order to measure CSR practices.

1. Corporate social responsibility and the common good

The concept of common good, that we want to introduce here, is closely linked to the Aristotelian-Thomistic tradition and to the Catholic social thought (Alford and Naughton, 2001; Melé, 2002).

Within this tradition, the common good is not something that individual can create alone, neither does it consist in the sum of individual assets or what every individual thinks to be good. Instead, it is the sum of all that represents a good for the community in its entirety (Carey, 2001). This assertion explains the fact that the concept of common good, that we are considering, is different from that one expressed within the utilitarian thought. In fact it considers the common good as given from the sum of all individual goods and achieved by an invisible hand as consequence of the pursuing of self-interest.

However, the conception we are considering does not coincide with the socialist vision, because the common good is not only represented by the community in itself, but mainly by the development of each person in his own human nature.

This development can be realized only inside of human community, thanks to the particular system of human and social relationships that are built in it.

In the Aristotelian-Thomistic thought the good of the community is a part of the good to which the individual aspires and to which finalizing his own activities (Sulmasy, 2001).

Moving from the common good concept to the enterprise one, we can observe that the enterprise achieves a lot of goals in its acting: as an example dividends for its own shareholders, products for consumers, wages for employees, general improvement of the quality of life, etc. In other words, we can say that the enterprise acts in order to achieve many goods. The crucial point is in determining what type of goods it produces and which priorities it must assign to everyone of them.

Following the definition of common good introduced by Alford and Naughton (2001, 2002) it is useful to distinguish between two types of good that can be pursued by a firm: “foundational goods” or “instrumental goods” (such as profit, capital, technological
development) and “excellent goods” or “inherent goods” (such as human development, in all its forms, in harmony with the development of the society as a whole).

The market requires for-profit enterprises the pursuing of foundational goods with all their strength in order to be competitive. These goods are obviously necessary to the operation and the survival of the enterprise so that it has to take them into great consideration in its acting. However, it is wrong to consider them as the ultimate aim of its activity, as instead it happens both in the neoliberist conception of enterprise and in the shareholder-value based model so popular in the American context.

Excellent goods are those that can be pursued with respect to ties characterizing the special model of human organization represented by the enterprise.

They can’t be achieved exclusively by an exchange of mutual interests between the enterprise and several groups in relation to it, as the stakeholder approach asserts. On the contrary, excellent goods affect the present and future society in its entirety.

The goal of achieving excellent goods within the enterprise and outside of it as a result of its activity, with regard for foundational goods, coincides with the aim of realising the common good.

Therefore, a first definition of social responsibility in relation to the concept of the common good can be the following: the responsible enterprise is that it pursues profit in accordance with laws, that it tries to survive and to remain competitive in the market but, at the same time, that it keeps in mind that all this must be considered only as an instrument for the attainment of “higher” goods, oriented to the improvement of the well-being of humanity.

Another distinction can be made between common or “participated” goods and particular or “allocated” ones (Alford and Naughton to you, 2001). Also in this case, we speak about assets produced by enterprises.

Common goods can be intrinsic (such as the productive system where everyone works), or extrinsic (such as personal relationships of reciprocity among persons, the social capital and so on).

The enterprise is able to well work only thanks to this network of common assets that holds its members together and that contribute to build its identity.

These elements allow to link individuals to an enterprise in different ways to develop factors as confidence, affection, expectations. Thanks to participated assets the enterprise contributes to develop and to maintain fundamental principles for common living.

On the contrary, particular goods (or “allocated”) are those goods that are not shared with a group of persons, but that are divided in parts and distributed individually (idem).

Products sold by enterprises are examples of particular or “allocated” goods, such as profits distributed in different ways.

The priority assigned to the participated goods regarding those allocated is therefore an other fundamental aspect to consider so that an enterprise can realize the common good.

Promoting as much as possible the production of “participated” goods, also thanks a correct distribution of “allocated” ones, this is the second distinctive element of a responsibly acting enterprise in order to achieve the common good.

At last, a third mean derived from the concept of the common good consists in the distinction between real and apparent goods.

The enterprise acts in order to achieve the common good in the measure in which it tries to promote as much as it can real goods, avoiding to diffuse the use of apparent ones.

How to evaluate the social responsibility of an enterprise with regard to the promotion of this two kinds of assets?
The distinction between real and apparent goods could be more evident from a theoretical and conceptual point of view, while it poses much more problems on the empirical level.

For what concerns the production of weapons we “nearly” all agree on thinking that they are apparent goods. But it is more difficult to estimate superfluous assets like alcoholic, cigarettes, pesticides, such as all those assets that are considered to be the outcome of consumerism rather than fundamentally useful to the individual.

Many of these assets were produced in order to satisfy individual needs (e.g. pesticides). Only subsequently all damages that their use had caused have been known.

Moreover, if such assets are “chosen” and required by consumers, preventing their production would imply the fact to limit the principle of freedom of human being.

A solution to this problem consists in adopting a value-based model of reference in order to distinguish between these types of assets.

One first distinction between real and apparent goods has been made inside of the debate on CSR. Manufacturers of tobacco, drug, alcohol, weapons, pesticides, OMG, pornography and gambling, simply mentioning the main ones, these have already been excluded by agencies of social rating and by case studies of responsible enterprises, without considering their behaviour in other fields. But more complex problems remain to solve. As an example, how to judge a car, that it pollutes and it provokes many incidents damaging the individual and the society?

Considering all these elements, it could be said that the social responsible enterprise is that one which “runs”, or tries to run, towards the direction of pursuing of the common good. Therefore, CSR indicators have to measure all those business activities putting in evidence the great attention of enterprises for excellent, participated and real goods, concurring in this way to estimate its contribution to the common good.

At this point, it is possible to give a synthetic definition of CSR that derives from the concept of common good, such as it has been introduced before:

*the social responsible enterprise is that one which considers the pursuit of the common good as the final goal of all its actions and activities, meaning by common good the development and the well-being of the human community as a whole and in every form.*

2. Practical implications for the measurement of CSR

After defining what CSR in relation with the concept of the common good it is intended to be, next point is to try to operationalise this definition, searching the more appropriate empirical referents in order to measure them.

But the measurement of the concept of CSR until today presents some issues making this activity difficult and complex.

As it is known well, the literature on Corporate social responsibility (CSR) is full of terms and definitions, that have been supplied in the course of the years in order to try to better explain the meaning of this concept.

But, we have had only few attempts to translate these definitions, and consequently the particular conception of social responsibility they subtended, into indicators and variables capable of measuring appropriately some manifestation of examples of social responsibility in the behaviour of enterprises.

Today, CSR measurement happens mainly in four different ways:

- by social, environmental and sustainability audits that enterprises can decide voluntarily to publish;
• by social rating agencies, whose data about enterprise social responsibility are used in order to build ethical funds of investment;
• by case studies on enterprises in order to examine which strategies and initiatives they organize in the CSR sphere;
• by surveys based on mostly not statistical samples of enterprises: they collect data from auto-evaluated questionnaires, social audits or information in web sites.

All these methods contains some statistical-methodological problems up to now not adequately studied by the literature on the CSR topic.

Results of empirical researches on CSR, databases of social rating agencies and social audits published by enterprises hardly empirical data non comparable neither always reliable.

Moreover, because of the specificity of carried out surveyings, the activity of harmonization of publicly available data on the topic of CSR is not always easy and not often useful (Zamaro, 2004).

Some issues about these aspects concern the data quality in measurement process.

In particular, many of the issues that prevent to obtain a good data quality in CSR measurements can be attributed to two causes: a) the voluntary nature of the initiatives; b) the variety of definitions, terminologies and conceptions used in the debate.

In the measurement of CSR, at last, there is still the problem to understand how to estimate the action of enterprises that operate in different national contexts, even though they have their legal site in only one of these countries.

Until the issue is to evaluate the amount of philanthropic donations this is not a problem, but when it is wanted to investigate which is the behaviour of an enterprise, as a multinational one, with regard to environmental aspects or employees, what guidelines should be followed, considering the different laws every country applies in these fields?

These issues have all some implications for the measurement and the comparison of CSR, mainly when a business activity has to be estimated as respect of the law or as voluntary practice of CSR, depending on where the enterprise is working.

All this contributes to make very difficult surveys on CSR among multinationals or enterprises operating in different national contexts, because it forces to construct different indicators for different cases. Such situation, once again makes difficult to obtain statistically reliable and comparable surveys.

To conceive the CSR in relation to the common good, in the way we have proposed, can help to exceed some problems of measurement of the CSR.

1) In the first place, the conception we proposed allows to exceed the instrumental vision of the CSR subtended by the utilitarian and neoliberal vision of the enterprise. It is not the extent or the type of initiatives explicitly labelled as CSR that can demonstrate the effective behaviour of the enterprise in comparison to the common good (or the well-being of the society, like it is found in many definitions of the literature on the topic). It is also necessary to consider the behaviour of the enterprise in its entirety. This implies to consider not only the voluntary dimension of the behaviour of the enterprise, but also that implicit one, that derives from the institutional and normative context of reference. Moreover, also the ways in which an enterprise carries out its economic functions become important (short and long term guidelines, investments in R&D, adhesion to the shareholder value model or the profit maximization one, etc). In fact, these are all necessary elements in order to estimate the sustainability of an enterprise in achieving the development of the human society.

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2) The fact to consider the social responsibility in relation to the common good that the enterprise realizes, allows us to exceed the present limits of the stakeholder approach. In fact, it consider as receivers of the CSR initiatives only those groups of the society that have some direct interests in an enterprise. The greater part of sets of indicators used up to now in order to measure CSR is based on this approach. On the contrary our approach consider the society as a whole.

3) To evaluate all dimensions of the enterprise’s behaviour, also those referring to the institutional, cultural and legislative context of reference, it allows a better comparison at international level of CSR between enterprises in different countries.
Summary: The historical and systematic background of the principle of Subsidiarity as an important element of Catholic Social Thought is explained. Given certain similarities to the current situation of advanced economic Globalisation, Subsidiarity is claimed to be of high relevance for the 21st century as well. There obviously exist strong (yet implicit) links to Subsidiarity in economic theories of organisation as well as political science concepts like ‘Social Capital Theory’ and ‘Common-Pool-Resource Theory’ etc. Social scientists emphasize the role of cooperative networks for the local provision of local public goods. Those networks are introduced as ‘social capital’ of their regions, because they foster cooperation in a variety of dimensions. In such a perspective ‘Subsidiarity’ as a central principle of CST turns out to be a normative rationale for corporate community involvement activities, that invest in the social capital of their regions.

1. The principle of Subsidiarity in the emergence of Catholic Social Thought

The basic structures of modern society evolved in the process of industrialisation in the late 19th and early 20th century. Economic integration, centralization, technical revolution, rational problem-solving and ‘social engineering’ were intellectual mega-trends that determined these decades. Traditional moral doctrines of the church, which had been developed in the context of a stable agrarian society, were threatened. A strong liberalism idealized individual independence and the demolition of ‘old-fashioned’ value systems. German philosopher F. Nietzsche announced the ‘death of God’ (‘Gott ist tod’): He accused the Christian-occidental ethical tradition of having developed a ‘slave-moral’ that suppressed innovation and progress and had to be overcome by technical and business elites.

At the same time the social and economic reality changed dramatically in many parts of continental Europe. Work security, basic health care, family assistance were all lacking and economic hardships characterised the day-to-day life of workers. However, workers and their families were also facing a value-vacuum: While traditional value propositions of the static agrarian society obviously lost their grip, new normative orientations had not yet evolved. For many contemporaries the new doctrines of Socialism and Marxism seemed to be the only possible response to the challenge of the modern industrialised economy. The ‘The Iron Law of Wages’ (F. Lassalle) stated that the exploitation of workers is a necessary ingredient of industrial capitalist society. This analysis was very popular not only in the labour movement but also among commoners. Even early protagonists of the catholic social movement initially adhered to it like Emmanuel von Ketteler.

It was this intellectual and societal environment in which the more recent tradition of Catholic Social Thought emerged. In 1891 ‘Rerum Novarum’, the first social encyclical of Pope Leo XIII., had been published. The social doctrine insisted that Christian values remain fully valuable even in the new context of an early capitalist system. However, traditional normative orientations had to be adapted conceptually into the new socio-economic environment. The recent tradition of ‘Catholic Social Thought’ had been started. From the very beginning this was not primarily an academic, intellectual affair. Only in Germany and German speaking countries academic chairs for Catholic Social Teaching were established. The development of
basic concepts followed practical experiences and developments. Protagonists were practitioners who had to make decisions confronting their normative orientations with the emerging socio-economic structures. Catholic Social Thought has always been more vivid in mind sets of Christian Politicians, Entrepreneurs and Philosophers than in academic journals, conferences and university endowments.

In 1931, the Encyclical ‘The fortieth year (Quadragesimo anno)’ was published by Pope Pius XI. One major achievement of that document was the explicit formulation of the principle of Subsidiarity. The Encyclical did summarise considerations of ‘Rerum Novarum’ and other earlier documents, here. In substance this principle is based upon the autonomy and dignity of the human individual. It holds that all other forms of society, from the family to the state and the international order, should be in the service of the human person. Subsidiarity assumes that human persons are by their nature social beings, and emphasizes the importance of small and intermediate-sized communities or institutions. Family, the church, and voluntary associations are perceived as mediating structures which empower individual action and link the individual to society as a whole. The social and legal dimension of the principle implies that interventions from a larger level (be it national state or international organization) may not replace but must subside (from Latin ‘subsidium’) autonomous activities of smaller units. If necessary interventions from a higher level institution should be only temporary and aiming to restore autonomous activities of the smaller unit. Public services must therefore be located as closely to the ordinary citizens as possible: in terms of decision making as well as practical intervention. And citizens – in person as well as in intermediate bodies – should participate in defining the interventions of central institutions.

Within Catholic Social Thought Subsidiarity Subsidiarity is not a free-standing principle with an ultimate normative appeal. Rather it is integrated into an overall orientation that is also taking the other two principles of Solidarity and Personality of man into account. The relationship between the principles of Solidarity and Subsidiarity has been subject to intense discussion among scholars. In general, the relationship is determined in such a way that Solidarity has to be realised in subsidiary structures in order to avoid the cultivation of dependency. The ‘crowding-out’ of support by personal networks and mutual assistance (in families, neighbourhood and friendship) through interventionist public systems should be prevented.

In 19th and early 20th century’s continental Europe there existed a clear social model of subsidiary action. Workers and their families who had moved into the fast growing industrial cities found themselves without any social infrastructure, here. They had left their highly integrated rural surroundings and were exposed to the powers of modern industrialised society – such as anonymous labour markets, administrative hierarchy, and anonymous living conditions. Coping with the new threatening conditions, however, workers and their families formed all kinds of private associations and networks of mutual assistance. This was largely done under the umbrella of Catholicism – especially in Germany, where catholic groups were a minority and found themselves socially and legally deprived of certain civic rights by the Protestant Prussian majority. Subsidiary structures of internal solidarity were a very important linking element in the ‘catholic milieu’. A bunch of associations emerged: from charitable institutions to professional groups and even a political representation of catholic groups (Centre-party), which played an important role in the political landscape of the Weimar republic (1919-1933). When German Chancellor Otto von Bismarck introduced a state social security system including the first Accidental Insurance (1883), Health Insurance (1884) and Pension scheme (1889) it was a major political goal to deprive the catholic milieu (as well as the oppositional labour movement) of their mutual assistance associations.
2. The Subsidiarity principle as heuristic in searching for the 21st century’s institutional arrangements

We did characterise ‘Catholic social thought’ as a practical function that hardly found entrance into academic discussions during the extended century of its history. If academics took notice of it at all, the principles were perceived as merely normative concepts of an authoritarian Catholic hierarchy that lack meaning for positive research purposes. Moreover, in the first three quarters of the 20th century many social scientists conceptualised modernisation as a process of centralisation that had to be fostered and administered by progressive state agencies. In that ideological landscape ‘Subsidiarity’ was perceived as a backward-looking concept of a notoriously backward-looking institution.

At the beginning of the 21st century the Globalisation spurs wealth creation and growth rates of global economic output. However, an important question remains: How is the creation of public goods to be arranged under conditions of a Global economy? The capacity of central states to provide levels of public goods to which we have been used to in the past is shrinking. At the same time globalisation brings about new problems in areas such as social integration, demographic change, International ecologic and social order. Many problems of society – on a regional as well as national and international level - may only be solved with active participation of Civil Society. This includes Corporations as a player of major importance in the social fabric of tomorrow. Collective action is required here, that has to be organised without an (international) central state as external enforcement agency.

The international situation at the beginning of the 21st century is similar to many national situations in times of the emergence of the Catholic social thought in the last decades of the 19th century: There are pressing problems, there is a lack of public goods and institutional infrastructure but there is no central enforcement agency in place. Thus, even at the beginning of the 21st century, the principle of Subsidiarity has lost nothing of its programmatic relevance. Given the fact, however, that outside Catholic Social Thought it was mainly reflected as a normative principle, positive economic and social theories hardly took any notice of it. The heuristic power of Subsidiarity remained undisclosed as academics did not make use of the principle as a point of reference and a potential bridge to practical decision makers. In the next chapter, we quickly screen some relevant disciplines in that respect. What becomes clear is that important theoretical concepts evolved in the last decades which highlight aspects of the Subsidiarity principle but very rarely make explicit reference to it.

Subsidiarity in economics and organisation theory:

Agency theory: Neoclassical liberal economists (in the tradition of M. Jenssen and W. Meckling) focus on different incentive structures of ‘principals’ (shareholders, clients, citizens, buyers, employers etc) and ‘agents’ (managers, professional service providers, politicians, vendors, employees etc.) of an economic transaction. ‘Agency costs’ arise from the delegation of activities from principals to agents. Given the asymmetric information structure between principals and agents (with agents having more relevant information than principals) opportunistic Behavior of agents is possible. Due to contingent claims of principals, incomplete contracts are necessary that do not permit full control of agents. Hidden information, hidden action, hidden circumstances etc. may blur the P-A relation and enables opportunistic betrayal of principals by their agents.

Principle-Agent theory, transaction cost theory and other concepts of economic organisational science have been subject to ethical criticism recently. Scholars like Goshal (2005) ac-
cuse these theories to be grounded on a deficient concept of man and to establish a culture of distrust in management education. However, apart from these criticisms, there are also interesting links from Agency theory to the principle of Subsidiarity. The argument of agency costs implies that the remoter and more distanced the agent’s activity is to the principal, the higher are the information asymmetries within the P-A relationship. If long P-A chains exist (e.g. inside a centralised organisation, a large Bureaucracies or a specialised service provision procedure), information status is very heterogeneous among partners. The risk of opportunistic and exploitative activities of agents rises. On the contrary from a P-A point of view, interaction on a local level or in a homogeneous context is much easier. There exist important implications from Principle-Agent theory for the Subsidiarity principle.

Transaction Cost Economics: Organisational theory (in the tradition of O. Williamson) states that due to bounded rationality of actors, complex situations and specific investments, transactions are not costless. Similar to what has been said for Principal-Agent theories, transaction costs rise if communication among partners becomes more difficult, formal or informal rules of exchange lack, cultural diversity complicates cooperation etc. Local networks of self-organisation will have important advantages in reducing transaction costs and augmenting the mutual gains from trade.

Information Economics: Institutional economics (in the tradition of A. Akerlof) stresses that asymmetric information may prevent effective exchange and cooperation even if potential gains from trade are substantive (‘A market for lemons’). Arguments are quite similar to P-A models, here. Subsidiary structures may guarantee a relatively homogeneous level of information among transaction partners, which contributes to the appropriation of more ‘gains from trade’.

Game theory: repeated versus one-shot cooperative games. Game theories have been very influential instruments of organisational theory in recent decades. In experimental game-theory one important strain of research is focussing on the question, how cooperation is possible in Prisoner’s Dilemma (PD) situations. In a PD individual and collective rationality contradict each other and a cooperative equilibrium is supposed to be not attainable among rationally calculating individuals. However, as the concept of repeated games show, overcoming the PD and attaining cooperative equilibriums is much easier in recurrent than in ‘one-shot’ interaction. Thus, recurrent interaction in subsidiary contexts raises the probability of fair interaction.

Subsidiarity in social and political science theories

Social capital and trust theory (in the tradition of R. Putnam) elaborates the productivity of local networks of civic cooperation. In his seminal comparative study of ‘Making Democracy Work’ Harvard Political Scientist Robert D. Putnam demonstrated the crucial role of ‘civicness’ and civil networks for the economic success as well as the responsiveness of a regional administration. Referring to the seminal book of Alexis de Tocqueville (1835/40) on the American democracy, he discovered a strong empirical correlation between the density of informal networks and voluntary engagement on the one hand and the political and economic success of a region on the other. The links from Putnam’s research on civil society and civic engagement to the Subsidiarity principle are striking. Identifying local and regional civic life as a key parameter for economic and administrative success, Putnam delivers strong arguments for the importance of empowering local processes and networks.
Network theory and the theory of common-pool-resources (in the tradition of E. Ostrom). On a more micro-level the American political scientist E. Ostrom points out that local institutions, cultural norms, and rules of mutual control form an important asset in order to assure cooperation in developing countries. Therefore, Ostrom locates her concept of social capital precisely in the social science literature on ‘collective action’. The lack of instruments to enforce mutual contributions remains a powerful obstacle against cooperation even if there are large potential gains for working together. E. Ostrom shows that in some settings informal rules serve as an asset (‘social capital’) to collectively overcome these dilemmas. This holds especially true if collective sanctioning systems are in place (‘covenants with a sword’) that make the free-rider position less attractive for partners. Social capital theory is probably one of the most promising lines of research to better understand certain implications of the Subsidiarity principle.

Corporate Citizenship and CSR: these concepts cannot yet be described as full fledged theoretical arguments. However, in the past decade or so, issues like Corporate Citizenship, Corporate (Social) Responsibility etc. popped up. They were born out of practical necessities for management in the context of global markets. And while intellectuals still ask for suitable conceptual frames (Matten/ Crane 2004) decision makers in management have to act upon wide-spread expectations in Western societies. Perceiving Corporations as citizens in their social environment also leads to a search for participatory solutions that involve partners from different sectors of society. For corporations sharing responsibility implies joining forces with partners from civil society and ‘invest in social capital’ (Habisch/ Meister/ Schmidpeter 2000).

Subsidiarity as a normative rationale for Corporate Community Involvement policies

Our screening of different disciplines clearly indicates the relevance of the principle of subsidiarity. Relevant questions dealt within the analysed disciplines include:

- Economics: How are public goods to be allocated without the fiscal state as a third-party enforcement mechanism?
- Political Science: How do “governance structures” emerge based on networks of civic cooperation?
- Sociology: How are cooperation dilemmas to be overcome by self-imposed rules / informal sanctioning mechanisms?

Following the lines of the principle of Subsidiarity, the role of local networks as a region’s social capital is stressed here. Civic engagement and civil society forster mutual trust and cooperation. A Subsidiarity principle that is explained by contemporary social science concepts may serve as a normative rationale for Business’ Corporate Community Involvement projects. In the perspective designed here, those activities are more than mere PR gags but investments in social capital that strengthen the competitiveness and the livelihood of the region as a whole.
The corporate social responsibility movement (CSR) is, depending on how one counts, about 35 years old. A range of social movements in the 1960s--the student movement, civil rights, environmental, women’s--had, by the early 1970s, resulted in widespread calls for business to take on greater social responsibilities than previously. Milton Friedman’s famous essay rejecting this new call for corporate social responsibility was published in 1971.

One can think of the competing models of CSR emerging from this movement as existing along a continuum of expanding ethical constraints upon a general goal of increasing profits by responding to consumer demand. At one extreme, we find the very narrow view of CSR associated with neoclassical economics. Business’s social responsibility is to maximize profit by meeting consumer demand, and the only constraint is the duty to obey the law. At its most libertarian extreme, this view would also argue that the only appropriate laws are those that protect property and prohibit fraud and coercion. Theories of CSR become more moderate by expanding the range of constraints upon the pursuit of profit. Thus, one finds Norman Bowie, for example, arguing on Kantian grounds that beyond obedience to the law, business also has moral duties not to cause harm, even if not prohibited by law. Various stakeholder theories essentially expand and develop this range of duties by identifying ethically legitimate stakeholders other than investors and by articulating the specific duties owed to them.

We can thus characterize these theories as variations on the theme of balancing utilitarian and deontological ethics. The pursuit of profit is the mechanism by which business is thought to serve the utilitarian goal of satisfying consumer demand and thereby maximizing the overall good. This utilitarian goal is itself to be constrained by the duties that one has to persons affected by these activities. Our duties to other people (and their rights) create side-constraints or boundaries on business activity; as long as business does not overstep those boundaries, it is free to pursue profit. Depending on the theory of rights and duties that one adopts, those constraints range from the minimal duty of obeying the law to more extensive accounts of duties associated with the stakeholder theory.

It is fair to say that virtually all of these mainstream theories of corporate social responsibility (CSR) deny that business has any special environmental responsibilities. From the classical model of CSR associated with Milton Friedman and other defenders of the free market to the more recent stakeholder theory, environmental concerns function, at best, as side-constraints upon business managers. Business may have some negative duties associated with the environment—duties not to pollute and not to cause harm—but business certainly has no positive duty to conduct itself in ways that contribute to long-term ecological and environmental well-being. I would like to offer some reasons for thinking that this view asks too little of business. Expecting business to take a more active role in addressing environmental and ecological concerns is, I believe, more reasonable than usually acknowledged.
What one will not find among these common views is an account of CSR that holds that business has positive duties either to prevent ecological harm or to do environmental good. Continuing the side-constraint and boundary metaphor, one does not find ethical goals determining either the direction or the substance of business activity. In essence, these views adopt an ethically passive model of business management in which managers can fulfill their responsibilities by actively doing little or nothing at all. Business passively responds to the demands of the market. Business is passive in not violating the law. Business is passive when it causes no harm. According to these views, the social responsibility of business requires business to do virtually nothing at all.

This point, of course, reminds us that both utilitarian and the Kantian deontology are thorough-going liberal theories of ethics. Philosophical liberalism denies that ethics can require anyone actually to do good; that would be asking too much of free and autonomous individuals. Ethics does not provide the goals of our behaviour, only the limits. Liberty demands that we not coerce anyone to act in ways that they have not chosen, as long as their choices cause no harm to other individuals. Negative, not positive, duties are obligatory for every individual. Besides, given the wide variety of competing conceptions of the good life, there is little chance that we can arrive at a defensible and commonly-accepted account of the good.

Thus classical liberal theories tell us that doing good is supererogatory, an imperfect duty that we can encourage and praise but not require. Like charity, it is something that we hope for and encourage but not something that ethics obliges us to do. Unfortunately, many crucial environmental and ecological concerns are thought to fall within this sphere, particularly when the agent involved is business. Releasing toxic pollutants can be ethically prohibited, but preserving biological diversity, conserving natural resources, protecting wild and open spaces, reducing energy consumption, or designing fuel-efficient cars or sustainable production methods cannot. In fact, it is difficult to find many environmental concerns other than the ban on pollution that are thought to be part of business’s social responsibility, and even that can be trumped when allowed by law. (CO₂ emissions being the obvious example--while they are known to cause harm, business is free to continue emitting copious amounts of this pollutant since it is all quite legal.)

The view I wish to put forth holds that business does have an ethical responsibility, even when not required by law and not demanded by consumers, to redesign its operations in a way that is ecologically and economically sustainable over the long-term. Environmental responsibilities should provide the direction in which business develops as well as the constraints within which it operates. My argument to support this conclusion falls into two parts: arguments against the ethical adequacy of the standard model and arguments in support of the alternative.

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1 See Norman Bowie, “Morality, Money, and Motor Cars,” reprinted in this chapter.
GERMAIN GRIZEZ AND THE CORPORATE COMMON GOOD:  
THE RIGHT AND OBLIGATION OF MANAGERS TO DO GOOD

Leo L. Clarke & Edward C. Lyons

In Difficult Moral Questions, volume three of his The Way of the Lord Jesus,¹ Germain Grisez employs the principles of Catholic Social Teaching and natural law theory to analyze ethical problems faced by business executives. Grisez rightfully rejects the profit-maximization principle and states instead that a firm is not just a “money making engine” but operates for the common good of the stakeholders (454). In Grisez’s view, however, the autonomy of Managers to do good is limited by his specific conception of the corporate common good – a conception limited to a particular formulation of economic interests. It is here where we part company with Grisez’s views, and the rest of our paper will address this narrow but important issue.

The context for our analysis is Professor Grisez’s wonderful hypothetical on corporate philanthropy (453-54), which we paraphrase as follows:

A pharmaceutical company is considering whether to modify one of its drugs to combat a fatal disease in the Third World and save hundreds of thousands of very poor people. The modification would reduce short-term profits because Third World consumers could not pay a price sufficient to cover the development, testing, production and distribution costs, and Third World governments are unwilling (for political reasons) to purchase the drugs or subsidize their purchase. Although in other similar cases the responsible managers might rationalize a long-term profitability rationale stemming from potential future concessions in the affected countries with respect to other products of the corporation and from favorable public relations and good will in the U.S. and worldwide, corporate managers cannot in good faith conclude in this case that actual corporate profitability would be enhanced. The corporation already has double digit profit margin monopoly power in its patented drug markets and is subject to intense price competition in its generic products. The corporation’s business as presently conducted does no positive harm to anyone, but the modification and subsequent justification would accomplish the moral good of saving human lives.

Surprisingly (to us), Professor Grisez concludes that the Managers should not undertake the philanthropy:

This question calls for the derivation of a specific moral norm regarding the philanthropic activity of profit-making businesses. The common end of every voluntary association is determined by its participants’ mutual understanding and consent. A profit-making business is a voluntary association of the person who cooperate in the specific activities for which it was organized, in order to achieve various economic benefits. The common good of participants in a business is the

¹ GERMAIN GRIZEZ, “with the help of” JOSEPH BOYLE, JOHN FINNIS, JEANETTE GRIZEZ, RUSSELL SHAW “and others”, DIFFICULT MORAL QUESTIONS, VOLUME 3 OF THE WAY OF THE LORD JESUS (Franciscan Press, Quincy, IL 1997).
principle grounding and limiting the authority of those entrusted with the decision making that shapes their cooperation. So like the people who exercise authority in any other voluntary association, the directors and managers of a business should not elect to use its resources for purposes that, however good in themselves, do not contribute to its common good. Therefore, though the proposed project, considered in itself, would be good, the directors should not vote to proceed with it as a philanthropic act. (454)

In his view, management’s first responsibilities are to the corporate stakeholders; and those responsibilities limit management’s freedom to help non-stakeholders. He concludes that only two alternative are possible, either the corporation has a primary duty to its shareholders to provide them with a fair return, in which case giving the drug away is not permissible because it will reduce that, or, if it would not reduce profit below a fair return, then the company is already overcharging its customer stakeholders or underpaying its vendor stakeholders, or both (457).

While Grisez’s view is not obviously unreasonable, we believe Catholic social teaching, non-question begging economic principles of valuation and fair return, and the virtue of prudence impose no such restriction against the corporation’s distributing the drug.

Grisez’s basis for resolving the dilemma presented by the hypothetical is for the Manager to act to further the common good of the enterprise. His definition of the “common good” is therefore the key to his moral analysis: “Like any . . . voluntary association, a profit-making business is organized for a limited . . . good. . . . It is an association . . . by which money, work, services, and products are contributed by and distributed among various groups of participants, its common good is effective economic cooperation and fairness to all participants.” (456)

Grisez, however, nowhere adequately justifies this broad conclusion. First, his assumption that a business is organized for a “specific good” is questionable empirically, even if one limits the issue to the initial incorporation of the business. Different stakeholders undoubtedly would have different reasons for joining the community—some to make the most money, others to help mankind through better healthcare, some just because they enjoy chemistry or sales. Thus, contrary to Grisez, mere “effective economic cooperation” would very likely violate the basic assumptions and intentions of various members of the community. Second, the quoted language seems inconsistent with his statement earlier on the same page that managers have “moral responsibilities to others and should not regard other peoples’ activities essential to the business’s success as mere means for making profits.” (455) Although he might be referring simply to the non-economic needs of stakeholders (such as working hours and conditions of employment), the principle as stated suggests that the business should honor the desires of stakeholders to do good to third-parties through their investments of money or labor.

We suggest, in contrast to Grisez, that under Catholic social teaching the corporate common good is not simply economics-based, but reflects the full range of “human factors and moral factors” that stakeholders might rightfully take into account in pursuing their moral duty to “be at the service of the whole of society.” We would expand Grisez’s definition of corporate common good to encompass not just the economic interests of the stakeholders but the entire

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2 Grisez is somewhat ambiguous in his definition of “stakeholder.” While he seems to approve definition that would include “everyone who affects or is affected by a business’s actions,” he later seems to limit those who should be considered participants in the corporate community to shareholders, employees and those who are “more or less regular” suppliers and customers. (454-55).
“basket” of interests, desires and outcomes that combine legitimate economic, psychological and sociological interests.

Moving on, we also argue that Grisez’s analysis is inconsistent with the appropriate concepts of justice (what he refers to as “fairness”). We start with an argument that his approach to the issue of commutative justice within the corporate community is too narrow and simplistic.

First, we disagree with his statement that the lost of profits due to distribution of the drug inevitably deprives either the investors or other stakeholders of fair returns. Such a view appears to rely on a static and implausible notion of what “fair return means” even from a purely economic point of view. The implicit assumption behind Grisez’s view is that economics of the firm are zero-sum in the sense that any surplus welfare (profit) must be the result of an injustice to someone else. That would be true, if at all, only in the case of equilibrium in a perfect market – which is extremely unlikely to be the case anywhere in modern economies and even less likely in the oligopolistic pharmaceutical industry where patents protect many products, such as the drug at issue here. In the case of a growing business with successful new products, especially those involving new technology, it is not unusual for there to be surplus profit that does not in justice demand an increase in the amount paid to suppliers or internal participants nor a decrease in the amount paid to consumers. Due to the demand for the product and its beneficial use, the corporation may be able to sell the product at a price that is (i) far above its marginal cost, thereby allowing it to pay suppliers and employees rates above that justified by their productivity and (ii) far below the marginal benefits received by the firm’s customers. The ethical issue facing Managers in such a situation is no different from that in any other situation – labeling the problem as one of “excess” returns simply begs the question. Excess as judged by what non-controversial economic standard?

This point is illustrated in Grisez’s zero-sum fairness argument based on the supposed judgment of the board that distribution of the drug would be “at odds with the common good” and would not be fully justified by “anticipated economic benefits.” Here Grisez simply assumes that anticipated economic benefits incorporate the prohibition against sharing with needy third parties and would therefore conflict with the common good of the corporation:

It is true that what is fair to various participants in the business cannot be precisely calculated and various contingencies cannot be forestalled. But those responsible for the business need not and ought not make decisions they know are at odds with the common good. If the directors of a profit-making business use its resources for a philanthropic project not fully justified by anticipated economic benefits to the business, they exceed their authority and misappropriate the resources entrusted to them. ... (458)

Further, it must be noted that the concept of fair return itself is not a matter of demonstrative certainty. There will always be uncertainty about whether proposals will result in employees being paid less than their productivity or shareholders receiving less than a fair return. Managers are not omniscient and neither financial accounting nor information technology provides the clarity of view (especially in a non-static environment) always to enable a determination whether a specific expenditure will unfairly reduce others’ returns.

In addition to its zero-sum aspect, Grisez’s analysis seems to conflict with general notions of justice he recognizes elsewhere in his treatise. For example, his statement that it
would be unfair to benefit needier people at the expense of needier shareholders seems inconsistent with his statements elsewhere that “love requires that surplus be used to meet others’ needs” (Living a Christian Life, 369-370); that owners should share their property with others who have genuine needs (800-801); that “communal selfishness” is wrongful (419-420); and that individuals (and presumably groups controlling unique resources) have an obligation of solidarity to respond to those whose need is much greater than their own, even if far away.(432) Surely, if one has an obligation to share property, one certainly has the right to fulfill that obligation.

Grisez’s analysis of the hypothetical does not ignore these concerns. Rather, he seems to excuse them by focusing on the Manager’s problem of dealing with stakeholders who have many different personal attributes, thereby suggesting that Managers can engage in non-economic justified behavior only with unanimous consent of all stakeholders, an obviously impossible task even if “need” could be defined. We suggest that this view of justice is too restrictive because it either assumes away or ignores the risks that stakeholders accept when they become part of a corporation. Even if the corporation were viewed as a nexus of contracts, which typically could be amended only with consent, it would not be reasonable for stakeholders to believe that they had veto power over decisions that might affect them based on their individual attributes.

In fact, however, few if any publicly held corporations have mission statements or other expressions of purpose that would limit the corporate purposes to economic objectives, and changing perceptions regarding social responsibility may give even the poorest investors little reason to claim that their reasonable expectations were violated by a decision to help those needier than the “average” stakeholder.

In contrast to Grisez’s analysis based on fairness to individual stakeholders, we believe that a more profitable approach is to consider whether the Managers have the right to make the expenditure as a matter of justice in light of the two prevailing views of the corporation. We conclude they do.

First, the corporation may be viewed as a separate legal entity with its own moral autonomy. This so-called structural perspective of corporations is the historical or traditional view. The corporate form originated in the early days of the industrial economy’s need for mass capital for specific purposes such as trans-ocean shipping, insurance and railroads. As such they were viewed as quasi-public entities, formed not just to make a profit and certainly not to make the highest profit, but to accomplish their defined purposes. As capitalism developed, corporations were chartered for purely private purposes, but making money was still not the only purpose. As argued above, many stakeholders were undoubtedly motivated as much by the desire to produce a good or service of which they could be proud and from which they received personal satisfaction. Saving a significant number of lives would certainly qualify as a legitimate purpose of such stakeholders. Allowing Managers to accomplish those purposes would not violate any notion of justice due stakeholders who did not share those same interests because they could certainly be charged with notice that other stakeholders had non-economic interests.

Alternatively, permitting managerial discretion is consistent with the perspective that corporations are simply a network of contracts. One of the residual risks that shareholders assume is that the directors they elect will not be as competent or wise or good or mercenary as they expect. Other stakeholders assume this same risk with even less control since they do not elect the directors. Permitting Managers to exercise moral choices does not exacerbate that residual risk. Stakeholders concerned only about profit-maximization can limit their investments
to those companies who purport to eschew corporate philanthropy. In short, the open exercise of moral autonomy by Managers can result in informed and efficient decision-making.

In sum, we believe that Grisez’s concerns that the expenditure would be unjust to some stakeholders and therefore impermissible are misplaced when considered from the perspective view of economic risk rather than a profit-maximizing mentality. Stakeholders, in becoming involved with the corporation, incur the risk that management will take action that is not fully profit-maximizing and that is not economically motivated. Since stakeholders are not guaranteed cost/benefit analysis based on their personal attributes, then how can they be morally entitled to hold management to a purely financial analysis? If management has a moral obligation to forego the philanthropy, that obligation must have its source outside the notions of the “rules of the community” or its “common good”.

In the concluding sections of our paper, we offer a brief discussion of the Principles of Corporate Governance of the American Law Institute to demonstrate that prevailing principles of corporate law would permit the Managers to expend corporate resources to modify and distribute the drug. We also focus on the more general themes of Catholic Social Teaching: Universal Destination of Property; Solidarity; and Subsidiarity to support our conclusions. We conclude that an individual who stood in the shoes of the corporation would have a moral right to provide the modified drugs and save those lives even if it meant depriving his family of some goods. Because the essence of the corporation from the moral point of view is nothing more than a community of its stakeholders, the community has the right to respond as an individual would. Stakeholders cannot deprive the community from exercising moral rights simply by appointing fiduciaries to manage their money for them, so those fiduciaries are free to make decisions that would be morally permissible for the community of stakeholders.

Finally we discuss whether, if Managers have right to distribute the drug in keeping with corporate responsibilities, can the further moral argument be made that a “duty” exists to do so, and if so, under what conditions. In answer to this question, we agree with Grisez that Managers have an obligation to promote the common good. We disagree, however, with his conclusion that the obligation is necessarily limited to the economic good of the corporate community. Such a view at bottom seems simply to recapitulate a profit-maximization mentality, albeit with the benefit extended to all stakeholders rather then merely shareholders. Instead, we believe that the commands of charity, as reflected in the Parable of the Good Samaritan and on the facts presented by Grisez, require the corporation to modify its drug because the Managers and the corporation, just like all citizens, have an obligation of solidarity to their neighbors, the fulfillment of which enhances the common good of society. While the imposition of this duty no doubt raises practical difficulties concerning how and who determines precisely when and to whom such a moral duty is owed; this question is no different from the problem always presented by the demands of charity – to what extent is an individual, family or community obligated to forego its own flourishing to assist those in greater need.

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3 Principles of Corporate Governance § 2.01 (American Law Institute 1994). The ALI is composed of leading practitioners and academics and is generally regarded as the most prestigious source of legal commentary in the U.S.
Catholicism and Confucianism in Dialogue for Corporate Social Responsibility

Thomas Hong-Soon Han

“Seek first the kingdom (of God) and his righteousness.” (Matt 6: 33)

“The gentleman worries about the Way, not about poverty.” (Analects 15:32)

Introduction
1. Catholicism and Confucianism have many elements to share with each other in their views on social issues. This paper intends to research into such elements with particular reference to corporate social responsibility. Confucianism, containing no deity, but moral code of conduct, has been influential especially in East Asia. While having no large scale institutional ‘church’, it does not compete with other religions in modern age and aims at solving the problems of this world through the actions of people in this world. There exists spacious room for dialogue and solidarity to build a better world to live in.

Confucian View of Economy

Basic Needs
2. In the Confucian worldview, government consists of “sufficient food, sufficient armament, and sufficient confidence of the people (Analects, 12.7)”. In good government, “the rectification of [the people’s] virtue, supplying the conveniences of life, and the securing abundant means of sustentation” must be harmoniously attended to. (Cf. Book of History)
3. Thus, Confucianism views economy as an essential element of politics and insists that economy should be harmonized with ethics. “Virtue is the root, while wealth is the branch.” (Cf. Great Learning)” It also regards economy as a necessary condition for morality. Confucians argue: “Those with constant means of support will have constant hearts, while those without constant means will not have constant hearts.” (Mencius, Book III, Part A, 3) They believe that sufficient provision of the basic needs of the people is the basis of a good society. This would mean that economic policy must be geared to realizing economic equality, which, in turn, would necessitate regulation of economic activity. In their view, “If there is equal distribution, there will be no poverty.”(Analects, 16.1)

On Profit
4. Confucianism regards as ideal the harmony between profit and justice. Profit (or wealth) per se is not regarded as immoral, but it should be in harmony with justice. (Cf. Book of Changes) As Confucius puts it, “One who, on seeing profit, thinks of righteousness, may be considered a perfect man,” (Analects, 14.12) on the one hand, and, on the other, “Wealth and high station are what men desire but unless I got them in the right way I would not
remain in them.” (Analects, 4.5) It can thus be said that what Confucians warn against is the violation of morality in the profit-making process.

5. Profit harmonized with justice may promote social harmony, while the desire for profit or for personal gain may promote social conflict. This underlines the importance of returning a proper part of the company’s profits to society and fulfilling the social responsibility of the company.

**Nature, Human, and Society Are Integral One**

6. This view is further intensified by the Confucian conception of nature, human, and society. In fact, Confucianism perceives that nature and human constitutes the organic unity and considers the individual, his or her family, society and the State as the one organic body. In the Confucian worldview cultivating oneself is a precondition to harmonizing one’s own family, which is, in turn, a precondition to well governing one’s own State, which is, in turn, a precondition to bringing peace to the entire world. (Cf. Great Learning, Part 1, 4-5.) It means that one needs to cultivate oneself so as to give all people security and peace. Confucianism does not consider an individual and society to be separate from each other. It perceives that totality is as important as individuality.

7. This implies that employees should never pursue their own interests to the disregard of the company’s survival, and employers should never neglect the interests and welfare of the employees for the sake of their own interests, on the one hand, and employers and employees alike should never pursue their company’s interests to the detriment of the common good, on the other. As human and nature are integral one, so are business and society.

**Social Harmony**

8. In Confucianism great importance is attached to harmony in every aspect of human life. Confucians believe: "Cosmic timing is not as good as favorable earth conditions, and favorable earth conditions are not as good as human harmony."(Mencius, Book II, Part B, 1)  

9. For the Confucian entrepreneurs and business executives organizational harmony is a primary goal to pursue. The idea of tension between the enterprise manager and the worker is abhorred. “What you do not wish for yourself, do not impose on others.”(Analects, 12. 2) “A man of humanity is one who, wishing to establish himself, helps others to establish themselves and who, wishing to gain perception, helps others to gain perception.”(Analects, 6.30)

**Material Sharing**

10. Confucianism underlines the importance of sharing among the people as a way to attain “jen (benevolence, humanity),” which is its core value. Especially a ruler should share his fondness of money with the people, sympathize with them in their joy and sorrow. (Cf.
Mencius, Book I, Part B). Only in this way is he able to win the support of the people. This is true not merely for the one in authority over the people, but also for everyone, including especially businessman/woman. Thus, in the business community, too, an egoistic behavior to pursue solely their own interests to the neglect of other people’s interests should be avoided.

**Familism**

11. Confucianism presents the family as the model for the entire society, stressing moral obligations of family life as the basic building block of society. In traditional Confucian societies an intense familism took precedence over all other social relations. Here an individual seldom thought of himself/herself as an isolated entity. He/she was a concrete individual person who moved, lived and had his being in the natural milieu of the family. The family extends to lineages and larger kinship groups; the local community and the nation are seen as a kind of family of families that unite all its members into a single social entity. Communitarianism has thus developed, functioning as an informal system of social security, as well. Extending oneself to others – extended family, fellow citizens, and eventually to humanity in general – is conceived as the way to attain social harmony.

12. The Confucian notion of family was adapted for the business realm. In Confucian societies business is family-orientated. Firms are typically managed by small circles of closely related individuals in a family-like setting. A great majority of firms are family-owned and –managed small businesses. Their attitude towards labor-management relations is paternalistic. The workers are to be cared for as members of the family and in return are expected to be loyal. They are expected to be dependent on the manager for their welfare and leadership. Prerogatives of management are sacred. Great importance is attached to guanxi (connection, relationship) both inside and outside the company, which is made stronger by family ties, friendship, while serving as a criterion for appointment and promotion, on the other.

13. The purpose of business is invariably to enrich the family. However, distinct from the Western enterprise which is conceived strictly as a profit-seeking economic entity, the East Asian enterprise also seeks profit, but not at the expense of human relations. It means that the Confucian corporation is also a social entity that serves to promote community values.

**Catholic View of Business Enterprise**

14. Brotherhood of humankind – the counterpart of the fatherhood of God – is one of the fundamental truths of Christianity. It places brotherly relationship between human beings in a much closer and stronger tie than the subsidiary ties uniting narrower groups such as the
family, the clan or the nation. All humans belong to the same family. Worldly goods are family goods, which are ordained for the needs of all the members of the human family. All of us should be “our brother’s keeper”. This notion leads to the Catholic principle of the universal destination of material goods.

15. In addition to serving the common good through fulfilling the economic function, business enterprise also performs a social function. For a business enterprise “the economic dimension is the condition for attaining not only economic goals, but also social and moral goals, which are all pursued together.”

16. “A business cannot be considered only as a ‘society of capital goods’; it is also a ‘society of persons’ in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company’s activities or take part in such activities through their labor.” (Centesimus Annus 43) Therefore, the Catholic social thought emphasizes that “the active sharing of all [employees and employers] in the administration and profits of business enterprises in ways to be properly determined is to be promoted.” (Gaudium et Spes 68) Every effort must be made to ensure that the enterprise is indeed a true human community, concerned about the needs, the activities and the standing of each of its members.

17. The Catholic social thought recognizes the profit as an economic indicator of the health of a business which enables its development and modernization. At the same time, it emphasizes that the legitimate pursuit of profit should be in harmony with the protection of the dignity of the workers.

18. The Catholic social thought perceives the business enterprise as a community of solidarity, which should not be closed within its own interests, but should move in the direction of a “social ecology” of work, and contribute to the common good also by protecting the natural environment.

19. The Catholic social thought stresses that work and capital must complement each other. “Capital cannot stand without labor, nor labor without capital” (Rerum Novarum). It emphasizes that there must exist between them a relationship of harmony and cooperation, instead of antagonism, while recognizing the worker’s rights to organize, to bargain and collectively and to act collectively.

20. The Catholic social thought insists on the need for business to structure work in such a way as to promote the family; to accede to the demand for the quality of the goods and services, of the environment and of life in general; to create job opportunity for the people.

Conclusion

21. Catholic social thought and Confucianism share with each other many affinities in the
views of and presuppositions for the corporate social responsibility. These affinities, although predicated on different motivation, complement and enrich each other. These affinities are certainly conducive to the promotion of dialogue and solidarity among the adherents of Catholicism and Confucianism with a view to promoting the corporate social responsibility, thereby realizing the social reform for the common good of people. These will facilitate the inculturation of Catholic social thought in the sphere of the Confucian culture, on the one hand, and the development of Catholic social thought itself, on the other.

22. One important challenge: Can Confucian corporations extend the familism beyond their own boundaries into the society at large? The idea of “all within the Four Seas are [one’s] brothers” (Analects 12, 5) can serve as conceptual basis for the extension of the familism into the global dimension. To realize the corporate social responsibility is absolutely necessary not merely to attain the righteousness, the benevolence, and the benevolence, but also to achieve the long-term interest of the business.

23. Undoubtedly most adherents to Catholicism and Confucianism accept the aforementioned views and principles as a general statement. Yet, these are too often evaded through self-deception, omission, or sheer inertia.
The Challenge to Implement CSR and Catholic Social Teaching in China

Fr. Stephan Rothlin S.J.

Introduction

China’s rapid economic growth during the last three decades had important consequences on the whole world economy: more and more companies all over the world tend to outsource their firms to China mainly due to the fact that the labor costs there are extremely low, even compared to the neighboring countries such as India. There has been great progress in China in the development of labor laws; however, due to the sometimes weak enforcement of the law the door is wide open to practises which involve a disregard of basic standards of labor conditions, health and safety, as well as ecological concerns. Given that everybody was poor before the opening up of the economy in 1978 it is obvious that the drive to get the „the quick buck“ seems to be particularly strong in China.

Generally speaking, whatever happens to the Chinese economy will have serious consequences everywhere else in the world. The paper is arguing that the main concepts of both Corporate Social Responsibility (CSR) as well as Catholic Social Teaching (CST) and their practical applications are needed for business in order to make the dramatic economic development sustainable. However, in order to appeal to the Chinese public in general and the Chinese entrepreneurs in particular it is necessary to include main concepts of their philosophy especially the complementary approaches of Confucius and Mozi in order to prove that the main ethical insights cannot be brushed aside as „Western imports“. This process would greatly contribute to rediscover the ethical foundations of Kantianism and enlightened utilitarianism from an Asian perspective which is still usually ignored by Western academia.

Enlarging the ethical conceptual framework

With CSR and CST we refer to philosophical worldviews, „Weltanschauungen“, which are strongly influenced by Aristotelian-Thomistic concepts which have been further enriched by Kantianism and utilitarianism. The textbooks of „Business Ethics“ take usually a stand against the „anything-goes“ approach of an ethical relativism and come up with principles of right and wrong based on universal values and especially on Kant’s „Categorical Imperative“. CST offers a whole range of crucial concepts of social justice, solidarity, subsidiarity which are by no means just confined to the churched people, but appeal to all people who would like to join a combined effort to respond to the most urgent social problems. In order to further deepen this fundamental view on universal values, main concepts of Chinese philosophy need to be integrated within this conceptual framework. These Asian concepts have so far largely been ignored or overlooked. It is therefore crucial to come up with a more univeral foundation of both CSR and CST which attempts to explore and honor the great wisdom traditions of Asia. There is no doubt that the Confucian tradition had a lasting impact all over
Asia. In the specific context of the debate of CSR and CST it could be argued that the Confucian emphasis on filial duty between son/daughter and parents; student and teacher etc. could shed a new light on deontological approaches which are usually referred to the philosophical concepts of Kant. The Confucian stream of ideas could also enrich the realm of virtue ethics as the main focus for moral improvement lies on the „morally refined, good person“ („qunzi“ in Chinese) who inspires the other people to follow his credible, good example.

Even more important could be to analyze the contribution of the head of the so called “legalistic school”, Mozi, a contemporary of Confucius in the 6.century B.C. who already criticized some of the concepts of Confucius, such as the unconditional loyalty as the root of corruption. Confucius suggests that if your father steals a sheep, you should not tell it to anybody as the filial piety should be considered as a higher value than the obedience to the law. Mozi strongly disagrees as he considers such an attitude not as an appropriate loyalty, but rather dangerous complicity and argues that in order to avoid such abuses we need laws in order to make sure that the rights of everybody are respected and the „love for all“ brought about. Such discoveries are also significant in the Asian context where laws are weak or just considered as Western products.

**Have CSR and CST a chance in China?**

It is a very serious question if there is any chance for a lasting impact of both CSR and CST in a situation of sometimes rampant corruption and disregard of decent working conditions, intellectual property rights and lack of transparency. It is also questionable if CST can be developed in an atmosphere where the church is mainly preoccupied with internal problems and unaware of the fact that her rich spiritual tradition would greatly qualify her to respond to the repeated calls for economic justice for all, not only by popes, but especially from the growing demand and anxiety of disaffected people. Their frustration about different abuses of power, corruption has grown more louder. According to official statistics of the Chinese government there have been 83000 riots in China last year, up from 78000 riots from the previous year 2004. Leading economists agree that the widening „wealth-gap“ between the rich and the poor is the most serious social problem in China. From a supposedly most egalitarian society is now emerging one of the most equal societies with a Gini - coefficient estimated between 0.47 – 0.6. Recent studies maintain that China is one of the most secret and irresponsible countries which export weapons. It is considered as the only country which exports weapons without ever having signed any agreements which would put forward criteria to limit the trade of weapons which would contribute to serious human rights violations. The dispatchment of 200 military trucks to Soudan in August 2005, military equipment in Myanmar and the trade with weapons and grenades with Nepal are only a few examples of a mindset which apparently completely lacks any ethical regard for human life. Appropriate approaches to applied ethics, especially international business ethics, need to take into account these very serious macroeconomic facts and seek the dialogue with economics and social science as they convey the primary and widely accepted tools to understand social reality.
Based on empirical research in China it seems that mainstream in education is still not convinced or just simply ignores that a scientific formation in ethics is relevant to business education. Sometimes it might just be the overall obsession with profits which makes even otherwise open minded people blind to the need of a very demanding training in different areas of ethics which is widely pushed by the leading Ivy-League institutions in the United States such as Harvard and Yale business schools.

The link between CSR and CST in the Chinese context

The predominant goal of the Chinese government after the economic opening up process in 1978 has been the economic development of China. Nobody questions this goal, but the more challenging question is how the already mentioned negative side effects of this development such as the widening gap between the rich and the poor, as well as ever growing rampant corruption on different levels of the society could be diminished. As the mission of the Church is by no means confined to internal house keeping duties, it seems to be particularly relevant for the Church to come with a contribution in order to humanize this development. Urgently needed, as already Fr. Laszlo Ladanyi S.J., the former editor in chief of the magazine China News Analysis pointed out back in 1988 is a long term vision for the Church in China which would lay the groundwork for a Christian, or at least less materialistic view of the world and for a future evangelization (Meditation on the Church in China, Mai 1988).

As CSR which is a new academic field gains more and more ground in China, it could serve as a most appropriate groundwork for developing specific topics of CST. CST, as a normative discipline, should always be closely linked to a thorough social analysis. Another significant by product of the economic development has been that the so called “iron bowl” of the package of social security arrangements such as salary, apartment, heath care, pension schemes provided by one’s own “work-unit” has been largely destroyed and has given way to individualistic arrangements in a way that has clearly divided the society into different classes: those who are able to opt for excellent health care, education, pensions etc. on one side and on the other side those who have to fight for daily survival and live with the conscience to be left behind as losers. Some still can only count to rely on the networks of their family and their clan as they don’t have any experience to trust in the law, government or other institutions. It would therefore be a most significant achievement in a society which tends to be more fragmentated and divided if the church could be perceived as an institution where solidarity and subsidiarity are not just preached, but have become tangible signs of concrete mutual aid, assistance and sincere care for the needy and poor. It would be also an excellent model to follow if the church would make a strict commitment to stick firmly to reliable and trustworthy accounting practises. Unsurprisingly, there is still a long way to go in this field of implementing concrete transparency. As the corporate world is being forced to better adhere to strict standards of accountancy as a consequence of the string of scandals and abuses of the recent months and years, the church is also challenged to sometimes re-gain the trust of their members by a sincere commitment to more transparency and reliability in their financial dealings.
Using Corporate Social Responsibility (CSR) & Catholic Social Tradition (CST) To Assess Islamic Banking

Athar Murtuza

Using corporate social responsibility (CSR) & Catholic social tradition (CST) to assess the principles and performance of Islamic banks can be a useful pedagogical tool for raising ethical consciousness of students in Business Schools. Getting students to apply concepts they have been taught, such as CSR and CST, to unfamiliar contexts, such as Islamic financial services, is generally regarded as a way to promote higher form of cognitive skills amongst them. Indeed, given the emotional reactions Islam and Muslims are likely to bring forth amongst students at this time in human history, it may be a useful way to promote critical thinking—after all critical thinking is about trying to evaluate issues without letting the prior beliefs and perceptions getting in the way. By doing what the paper suggests, students can get to practice what they have learned and in the process their understanding of the material taught is enhanced.

Getting students to evaluate principles that underpin Islamic banks (as well as what has come to be known as Islamic financial services) and what they seek to do can provide a useful context to improve students’ perception of CSR and CST. A collateral benefit of such an exercise would be to reveal that CSR and CST have much in common with Islamic social ethics. Given the headlines in the newspapers around the world, such an awareness of an aspect of Islam is for the Good.

For all the noise in the media and the billions of dollars in direct and indirect costs being spend daily by the United States Government presumably to make Americans safer, Islam remains something unstudied if not misunderstood in the United States as well as in the Western countries. The legacy of Crusades, Reconquista, and Inquisition was not exorcised during the Colonial/Imperial dominance by Western nations of the Muslim countries and it has seemingly survived in the discourse of those who see in the Iraqi misadventure the start of the Armageddon—there are millions of individual who have their bags packed so to say for the Second Coming of Jesus [Peace Be Upon Him], Whom they perceive as being blue-eyed, blond, red-necked, and given to speaking with accent attributed to those living in the southern half of the United States.

In addition to helping students discover the commonality between CSR, CST, and Islamic ethics, the approach suggested in this paper seeks to enhance students’ educational experience by getting them to answer the obvious question: Why are the injunctions of the Qur’an so different from the practices and environment that characterize much of the Muslim World. Among countries known for endemic corruption and abysmal unaccountable governance, Muslim countries occupy a very prominent place. The correct answer to the question posed above would in fact be that it is not sufficient to just proclaim the ideals. Unless there are constant attempts, which accountants would label control, to see that the ideals are implemented, homo-sapiens being human would fall prey to greed and gluttony. Variance between mere belief and actual behavior was commented upon by none other the Jesus [Peace be upon him] himself: “Why do you keep calling me ‘Lord, Lord’ and never do what I tell you” (Luke, 6:46). Mercy and Forgiveness, attributes of the Deity, would be rendered obsolete if there were to be no sinners! Indeed the similar question can be posed by those
seeking to promote CSR and CST, they are not automatically engendered—they need constant
nourishments if they are to become not just lip service but actual behavior.
In this summary, it seems advisable to focus on the Islamic principles governing the pursuit of
wealth and the conduct of trade, while referring the readers to three papers in Oikonomia, a
publication of the Social Sciences Faculty of Angelicum—the host of the present conference-- that
would help them learn about the working of the Islamic financial services, an industry that
subsumes Islamic banks. In February 2003, OIKONOMIA carried two essays pertaining to
Islamic Banking: “Developments in Islamic Banking” by Helen Alford and “The Islamic Banks”
by Etienne Renaud. A paper published in the June 2006 issue by Murtuza surveys
developments in Islamic banking since those two excellent papers were published. Rather than
duplicating the material in those papers, this summary would focus on surveying the Islamic
ethics that govern the pursuit of wealth and the conduct of commerce.

Nothing is as condemned in the Qur’an as ill-gotten wealth—and the Islamic scripture
exhort mankind to be governed by compassion and sharing rather than greed, gluttony and
exploitation of fellow human beings. The Qur’anic exhortations to share with others the Divine
blessings bestowed on the wealthy and to acquire wealth in a righteous manner are by no means
antagonistic to the ideals governing CSR and CST. One could suggest that the phonetic
similarity between the Aramaic words used by Jesus Christ [Peace Be upon Him] to invoke God
while he was on the Cross and the word used by Muslims to refer to God is comparable to the
similarity between Islamic ethics of wealth and the ideals that underpin CSR and CST.
Repeatedly, the Qur’an urges Muslims to pay others what is owed to them since exploitation
occurs when one does not pay one’s obligation. The Qur’an also condemns in the strongest terms
those who cheat—shortchange—others through fraudulent means in commercial transactions.
Bribes are perceived similarly. The Islamic prohibition against cheating others is grounded in the
same spirit as is the Islamic injunction against transactions involving usury. Both would
encroach upon the basic right Islam grants to all human beings, namely, the right to be free from
economic exploitation. Islam prohibits exploitation of all sorts and in any form. Such
prohibition extends to welfare fraud, Medicare over-charges, bribery, cheating, dealing in drugs,
and even to environmental degradation, not only to interest, usurious or not, charged on money
loaned. The attitude implied in "buyers beware" is not quite Islamic—it is up to the sellers not to
exploit, deceive or extort; otherwise, they are guilty of committing war against God.
The following verses from the Qur’an shed more light on the Islamic perceptions of the economic
pursuits by human beings: "It is Allah who has subjected the sea to you that ships may sail
through it by His command, that you may seek of His bounty, and that you may be grateful. And
He has subjected to you, as from Him, all that is in heavens and on earth. Behold, in that are
signs indeed for those who reflect" (55: 12-13). The emphasis is on the fact that human control
over what is in the oceans, heavens, and earth is, in fact, a bounty from the Creator (12: 2). It
behooves human beings to use the Divine gifts with gratitude and to exercise control over the
earthly resources with respect. Clearly, Divinely bestowed control over nature requires that
human beings use rather than abuse that which has been entrusted to their control. The use and
development of natural resources must not be without moral restraints nor should their use
become an end in and of itself. Natural resources, furthermore, must not be monopolized in
order to benefit a few while being denied to society at large. The expropriation of coast lines and
beach-fronts by resort hotels, as is done in many of the resort towns around the world, would not
be an acceptable practice according to Islam.
PURSUIT OF WEALTH

The Islamic notions of private ownership, public domain, and wealth are grounded in the notion of human custodianship described above. The following ramifications may be extracted from it (Yusuf, 1990):

- Ownership of property implies a transferable right to develop and use natural resources.
- The right of ownership requires that natural resources be put to use and developed.
- Owners are encouraged to not hoard the wealth accruing from the economic development of natural resources.
- Not all natural resources can be handed over to private individuals. There are resources, such as rivers and ocean shores that must be available to everyone in the community.
- The right to own property brings with it a requirement to respect the interests of others as well as the natural resources themselves.

Islam places considerable emphasis on showing respect for the natural environment. Islam enjoins human beings to refrain from destroying or wasting God-given resources. Abu Bakr, who upon the death of Muhammad [pbuh] became the first Caliph of the Islamic state, exhorted his designated army commander being sent to battle "not to kill indiscriminately or to destroy vegetation or animal life, even in war and on enemy territory," thus there was no question of using torture or environmental abuse and degradation being "allowed in peacetime or on home territory" (Rice, 1996, p. 7). Islam allows private ownership over such resources but not monopolies within limitations. At the same time, three parties, stakeholders, are entitled to share the wealth generated through the development of natural resources: the investors providing the capital, the workers helping in the production, and the community at-large. The pursuit of wealth should not become an end in itself nor should it be earned through exploitation of other human beings.

Islam does not prohibit the pursuit of economic wealth, but at the same time it has provided guidelines about its uses, particularly with regard to sharing one's wealth. Such guidelines ensure that one is using permissible means to acquire wealth and is not exploiting others in the course of such pursuits of wealth.
From Manhattan to Dapitan: Human Dignity and Structural Realities in a Filipino Business School
Jeanette V. Loanzon

Manhattan and Dapitan are symbols of two realities. We need to understand both in order to educate the young.

Manhattan would be the pinnacle of “globalization” whose heart is abstract. It is a finance market where shares, currencies, derivatives at $3 billion daily moved on dealers’ screen in email time in the early 2000’s. A digital ticker tape proudly proclaims at Wall Street, “The world puts its trust in us.” Manhattan is marked by turbo-capitalism, when goods, services, human resources and finance travel at an accelerated speed.

Dapitan, one of the four streets which bound the University of Santo Tomas (UST) in Manila, is a commercial and residential area. Dapitan is marked by dualism, the co-existence in the same economy of a modern as well as an informal sector. On Dapitan Street, we see giant food chains selling homogenous meals prepared with international standards. Next to them are food carts selling native peanuts or home owners selling “rice plus” combinations at popular prices. People create income opportunities since they are driven out from the formal sector. Dualism is typical of developing countries like the Philippines.

On the plus side, Manhattan could represent the “fullest blossoming” of human potentials since there is constant pressure to do one’s best. Culture thrives, roots grow, values and friendships are formed in dualistic Dapitan.

Turbo capitalism and Dualism: Structural realities in Developing Countries

Turbo capitalism appears in the “silent takeover” (Hertz, 2003) by transnational business empires where they determine the rules of the game while governments have become referees, enforcing rules laid by others.

Turbo capitalism drives developing countries towards more dualism. In Dapitan, the mostly casual workers in the transnational fast food franchises consume “cheap” food from the street food trade. They are likely to rent “bed spaces” among nearby households which try to stretch limited budgets. They take rides on bicycles with makeshift attachments to accommodate two passengers especially during rainy and flooded days. We see how the informal sector serves the needs of workers in the modern sector for turbo capitalism to speed up some more.

In the Philippines, dualism has come about in the initial stages of the drive towards modernization when priority was given to import substitution and then exports promotion. This has led to a neglected agriculture, which could have served as a backbone of a developed country.

Further weakening the unstable economic foundation of the Philippines is politics. Archbishop Gaudencio Rosales (now Cardinal) has expressed a popular sentiment: the most destructive element of Philippine society is the way politics has been played for the last 50 plus years.
Turbo capitalism has allies among Filipino politicians, exacerbating the entrenched inequality and economic exclusion of the majority. The top ten per cent of the population even gained from a 36 per cent income share in 1988 to a 38 per cent share in 2000. In contrast, the poorest 70 per cent suffered a loss for the same period from their 38 percent income share to 34 per cent. Political power has been used to amass economic power and vice-versa. Economics and politics are controlled in the regions by 34 families (McBeth, 1989), resulting in 72 out of 100 Filipinos poor in the rural areas.

Towards Social Responsibility by a Filipino Business School in a Catholic University

We live in a world where we have to make choices given structural realities. The radical call of the Gospel requires us to promote human dignity in the face of the pressures from Manhattan as well as the dualism and human values that Dapitan represents. Human values are the roots which anchor our students to the reality of the local while aware of global standards and techniques. Education is helping our students see the connections between the global Manhattan and the local Dapitan.

The “good” company assumes there are good business schools. A Filipino business school in a Catholic University would be a primary laboratory for the integration of Catholic Social Teaching (CST) in the formation of the young towards social responsibility. Vatican Council II counsels us to help our university students to be “truly outstanding in learning, ready to shoulder the burdens of society and witnesses to the Faith in the world.”

The Catholic university is universal, embracing all human persons. This is contradictory to the market exclusion of the majority in a global economy. The “viewpoint from those who suffer” (Bonhoffer in Lemansi, Liddy and Toth, 1997) makes a Catholic university truly universal. Otherwise, the wealth of talent in higher schools of learning tends to insulate them from the needs of the deprived.

This paper documents how a business school of a Catholic university in the Philippines measures up to this ideal. While striving to be at the cutting edge of the global mainstream, a business school likewise cares for those excluded from a global market and anchors students deeply into their own culture. How do we maintain this balance? Being a “good” business school precisely means equipping students with both values as well as tools to apply CST in the business setting, local or global. This function is critical in a society with such scarce resources that no safety nets are provided for those excluded.

Strategy follows vision and mission

A Filipino business school in a Catholic university should then be able to anticipate professional skills training for the demands of globally competitive Manhattan while being culturally rooted and able to care for those “excluded” in Dapitan. To promote human dignity given the structural
realities of turbo capitalism and dualism, we need to think global, be entrepreneurial while becoming truly universal.

By deliberate planning and Divine Providence, we are able to document the processes and results which links “Manhattan” to “Dapitan” in the formation of our students:

1. Innovation in the curriculum: The UST College of Commerce offered in 2004-05 a new major in entrepreneurship. Entrepreneurship unites knowing and doing. Since we realize that inequity produces exclusion, we embarked on Entrepreneurship and Ethics education toward Equity (Triple E). The vision of the Triple E program is to enable our students to provide affordable goods and services as well as generate paid work for excluded groups like women and out of school youth. We organized and trained a core group of faculty. Students will learn to be entrepreneurs in communities where they will be assigned to keep them in touch with the needs of the mass market, more than 75 per cent of Filipinos in 1999 (cited by Roberto, 2000). The approach is community based since development from the bottom is low-cost (Saniel in Talisayon 1990), vernacular spaces provide meaningful solutions (Rahnema in Sachs 1992) and local communities combine economic imperatives with social benefits (Dahrendorf, 1995). The community approach upholds the principle of subsidiarity in CST. Triple E is anchored on the Triple L model of action research with grassroots women. Triple L refers to Listening, Leadership and Livelihood training.

   Triple L Model for action research with grassroots women
   Listening Centrality of the human person
   Leadership Strategic interest due to subordination
   Livelihood Practical need for income

2. Student activities: We invited about 30 students from Sophia University for a campus tour and interaction with our students in August, 2004. The Japanese guests were donors of scholarships to schoolchildren in Iloilo, Visayas and Benguet, Luzon. Our student leaders served Filipino hospitality at its best, even giving a Japanese translation of Philippine history to the guests. DIVERSITY was an acronym the student leaders used for the event: Different Individuals Valuing Each other Regardless of Skin, Intelligence, Talents, and Years. The 13th Pope Leo XIII lecture series in February 2006 featured overseas Filipino workers (OFWs). The Economics Society, whose motto has been the two-fold mission of an economist: “trustee of the poor” (Boulding in Meier, (1984) and “guardian of rationality” (Meier, 1984), coordinated. The main resource person was a Scalabrine priest serving with the Episcopal Commission on Migrant Peoples. The four-person panel included a Filipino woman household worker in Singapore and Hong Kong, an Italian woman from Milan doing a dissertation on overseas worker remittances, a faculty member who had contractual work in Indonesia, and an outstanding senior student whose single parent has supported his studies by working as a seamstress in Brunei.

3. Faculty Development Program: This involved mainly two forms: faculty presentation/participation in international conferences and in-house faculty upgrading. For instance, faculty members presented papers in an environment conference in Hongkong as well as in the International Society of Business, Ethics and Economics Conference in Melbourne. The Financial Lecture Series of 2004 began with “The Sliding Dollar”, a talk given by our guest lecturer in the department of economics from Milan.
from November 2004-March 2006. This was followed by two talks by outside experts on derivatives and the bonds market. For the “soft skills”, the three guidance counselors of the college facilitated a lived-in seminar workshop for updating faculty on their role as student advisers. The discussions centering on student problems such as cash needs resulted in a proposal by the Dean for a student contingency fund. This was approved by the Rector’s office and enables students with emergency needs to borrow about $200 dollars to pay for tuition fees payable in three months.

4. Alumni relations: To help us in planning towards a curriculum for our business administration (BA) students which would anticipate industry’s needs, we organized a BA Trisectoral Forum series. Outstanding BA students who won in a first strategic marketing conference contest in 2004 took the initiative to ensure that succeeding groups of students would fare better in the job market. The three sectors represented were the alumni, the faculty and the students. The attendance of the alumni board officers at the forum and their closer relationships with the student leaders led to a related project of providing a profile of 2006 graduates in a CD rom format to interested employers. The increasing acquaintance by the alumni officers with the financial needs of students led to more corporate scholarships as well as those given by the Alumni Board themselves.

5. Community service: This refers to the internal community of the college as well as the external communities where students work. The most immediate community with whom the College of Commerce students and faculty interact is the non academic, maintenance and security staff. Annually, since 2003, the Dean’s office together with student organizations holds a Christmas party where the children of the staff are invited. It is a concrete way of sharing time, talent, and treasure. In 2004, when severe floods hit Bulacan in Central Luzon where the Triple E students were working, the student body was mobilized to render emergency help to the area capped by a medical visit by a UST-Manila doctor. The elected municipal government passed a resolution in gratitude for the help of the college. Likewise the Entrepreneurs’ Guild with the Dean’s office held discounted grocery and school supplies sales to Antipolo, a community where Triple E students are engaged. They likewise helped the Dean’s Office for a livelihood project for women in the university parish: selling of palm leaves on Palm Sunday and food processing skills training. In the latter, the university faculty served as resource persons.

6. Regional and International Linkages: A memorandum of agreement was signed with the University of Atma Jaya in Yogjakarta (UAJY) in February 2005. This promotes regional cooperation with a Catholic university facilitated by the department head for Asia of the Katholischer Akademischer Auslander Dienst in Bonn. The UAJY rector returned the visit of a team of three faculty members of UST-Manila. Business Ethics was the subject of a talk given by the rector to senior students and faculty members. This is a promising project for the lessons from the interaction of a Catholic university in a country with a Muslim majority. For its international linkage, the UST College of Commerce is the university entity participating in a research network called Four Pillars Project. It involves institutions of learning infused with Thomistic beliefs and values: UST-St.Paul, Minnesota, Pontifical University of St. Thomas-Rome, Ukrainian Catholic University, also with the participation of St. Thomas Institute in Ukraine, and UST-Manila. The present focus is on Catholic Social Thought and Corporate Social Responsibility.
7. Separation of the college Department of Accounting to a new College of Accountancy: This is an alumni initiative which aims to continue the tradition of excellence of the department as well as to contribute their share to enhance learning in their Alma Mater. Manhattan is a world where powerful finance rules which therefore, requires more transparency from the accounting profession.

Throughout these activities, CST principles permeate the attempts toward social responsibility: primacy of the person, universal destination of goods and the common good. The multiple experiences of human goodness bring out valuable lessons: strategy follows vision and mission, human values are roots versus the turbulence in Manhattan, openness to the action of the Spirit. Mistakes are recognized and adjustments made.

What about our hopes for the future? It is a paradox that the harshness of turbo capitalism is tempered by the thinking of the founder of the “laissez faire “model in 1776. “No society can surely be flourishing and happy, of which the greater part are poor and miserable”(Adam Smith, Wealth of Nations pp.91,96,99 as cited by Rothschild, 1995, p.3). At the 1995 World Social Summit in Copenhagen, Emma Rothschild lamented that this was “the road not taken” by the followers of Adam Smith. Adam Smith insisted that minimum economic security for all guarantees the general prosperity for all. We have to expose the perversions of the market, exhorts the World Council of Churches (“The Political Economy of the Holy Spirit, ca 1990).

“Born from the heart of the Church”, Catholic universities have a contribution to make since religion binds us to one another in a “web of compassion” (term coined by Galtung, 1995). A challenge to Catholic universities in predominantly Christian Philippines remains: how to infuse the political sphere with religious values (please refer to Kivimaki, 1995). We need to see and listen to the “signs of the times”, the presence and activity of God whether in distant Manhattan or familiar Dapitan. We are able to respond since we have been gifted with a “faith that throws a new light on everything . . . and thus directs solutions which are fully human” (Gaudium et Spes 11).
Introducing LIBA

The Loyola Institute of Business Administration, popularly known as LIBA was established in 1979, thanks to the long-term vision of the Society of Jesus, in the idyllic and sprawling campus of Loyola College, Chennai, Tamil Nadu, India. It was instituted as the result of the Jesuits identifying the need to found an institute in this part of the country that would provide quality and ethics based management education. The institute commenced its educational endeavour with the inauguration of a three year part time Post Graduate Diploma in Business Administration (PGDBA) for working executives in 1979. Later, from July 1995, it has been offering a two year Full time Programme leading to the Post Graduate Diploma in Business Administration. Both the Part time and Full Time Programmes have been recognized by the All India Council for Technical Education (AICTE) and recognized as equivalent to MBA by the national association of Indian Universities. Presently, we have 120 Full Time and 180 Part Time students undergoing the Post Graduate Diploma Programme in Business Administration. We have 15 Full Time Faculty and more than 50 Guest Faculty involved in the PGDBA Programme.

Thought LIBA has been started with the avowed objective of providing management education in a Christian atmosphere to deserving Catholic students, it admits students of other communities as well, irrespective of caste and creed. It is an academic institution wedded to the promotion of national development by educating and training future entrepreneurs and managers, who will be professionally competent, ethically conscious and have a compassionate concern for the welfare of the weak and underprivileged in society. In consonance with the vision of its founders, the mission of LIBA is to shape its students as agents of social and economic change through value based management education they acquire at the Institute. In a short span of two decades, LIBA has earned a reputation as one of the best run Business Schools in South India.

Ethics and Social Responsibility of Business:

LIBA has a unique identity of its own. It attempts to emphasise in its management programme the Ethics and Social Responsibility of Business. With this end in view, LIBA has introduced certain modules in the core curriculum of the PGDBA Programme keeping in view the socio-economic objectives we want the students of LIBA to imbibe. We have introduced as part of our curriculum a full fledged Business Ethics course from the academic year 1998-99.

Mother Teresa Award

With the completion of about two decades of its existence in 1998, it was thought appropriate to bring to the fore the institute’s unique identity and mission. In keeping with its strong and sustained social orientation, LIBA has instituted in the name of that Angel of Mercy and Compassion, Mother Teresa, an Award to showcase a corporate which rendered services to the socially weak and disadvantaged sections of the society, far beyond the call of its duties and responsibilities.

The Concept of Corporate Citizen (The good Company)

As conceived by LIBA, a model corporate citizen is a company, which is professionally managed with a consistent and persistent focus on its business mission blending with it a social vision which reveals its abiding concern for the economic upliftment of the disadvantaged sections of its neighbourhood community in particular and the larger society in general. Any listed corporate is eligible for the consideration of the award.
**Eligibility and Criteria for the Award:**

**Information sought from the Company**

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<tbody>
<tr>
<td>1</td>
<td>Listed Companies</td>
<td>Information Provided by the company</td>
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<td>2</td>
<td>Mission Statement</td>
<td>Contribution towards social benefits, business ethics,</td>
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<td></td>
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<td>employee empowerment and efforts towards achieving quality</td>
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<td></td>
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<td>standard.</td>
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<td>3</td>
<td>Awards won</td>
<td>Significance of the importance of the awards won.</td>
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<td>4</td>
<td>Public Image</td>
<td>Our perception about the company from Newspapers, magazine</td>
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<td></td>
<td></td>
<td>etc.</td>
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<tr>
<td>5</td>
<td>Quality and Customer</td>
<td>Letters enclosed by the Company</td>
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<td></td>
<td>Satisfaction</td>
<td>Company’s attitude towards quality and customer satisfaction</td>
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<td>such as achieving ISO standards.</td>
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<td>Our perception about the company’s product.</td>
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<td>6</td>
<td>Dividend Record</td>
<td>Rate of dividend</td>
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<td>Regularity of dividend</td>
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<td>Dividend Policy of the Company</td>
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<td>7</td>
<td>Employee welfare</td>
<td>Benefits provided to the employee</td>
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<td></td>
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<td>Innovative employee benefits scheme</td>
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<td></td>
<td>Expenditure incurred on salaries and other employee related</td>
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<tr>
<td></td>
<td></td>
<td>benefits</td>
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<td>8</td>
<td>Welfare scheme for</td>
<td>based on information provided by the company</td>
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<tr>
<td></td>
<td>neighbourhood</td>
<td>Expenditure incurred by the company</td>
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<td></td>
<td></td>
<td>Number of beneficiaries of the scheme and</td>
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<tr>
<td></td>
<td></td>
<td>Letters from beneficiaries.</td>
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<td>9</td>
<td>Beneficiaries of welfare</td>
<td>Based on information provided by the company</td>
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<td></td>
<td>Schemes rural</td>
<td>Expenditure incurred by the company</td>
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<tr>
<td></td>
<td></td>
<td>Number of beneficiaries of the scheme.</td>
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<tr>
<td>10</td>
<td>Permanent Project</td>
<td>Hospitals, Dispensaries, Schools etc maintained on</td>
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<tr>
<td></td>
<td></td>
<td>permanent basis</td>
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<td>11</td>
<td>Environment protection</td>
<td>Steps taken to reduce pollution caused by the company.</td>
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<td></td>
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<td>Steps taken for environmental protection for neighbours such as</td>
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<td>raising green belts.</td>
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<td></td>
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<td>Finding alternative use for the waste generated by the</td>
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<td></td>
<td></td>
<td>company.</td>
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<tr>
<td>12</td>
<td>Promotion of ancillary</td>
<td>Creating additional employment</td>
</tr>
<tr>
<td></td>
<td>units</td>
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<tr>
<td>13</td>
<td>Scheme for deprived and</td>
<td>Employment provided for the underprivileged such as</td>
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<td></td>
<td>disadvantaged</td>
<td>handicapped persons.</td>
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<tr>
<td></td>
<td></td>
<td>Training and skill development programmes run for the</td>
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<tr>
<td></td>
<td></td>
<td>under privileged</td>
</tr>
<tr>
<td>14</td>
<td>Litigation</td>
<td>Nature of litigation in which the company is involved.</td>
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Based on the above information, seven Distinct **criteri**a are being considered in the process of selection of the awardee. These are:

1. Commitment to quality and customer satisfaction.
2. Pursuit of value addition for shareholders as a consistent goal.
3. Harmonious industrial relations with employee welfare as its strong foundation.
4. Distinct sponsorship and active involvement in permanent projects which promote the social and economic empowerment of the poor, the disabled and the marginalized sections of its neighbourhood.
5. Concern for environmental protection including adoption of eco-friendly technology.
6. Promotion of ancillary units with emphasis on training and development and on employment generation.
7. Explicit recognition of social responsibility.

The process of Selection of the Awardee:
LIBA constitutes an Award Committee consisting of persons of eminence known for their social commitment and wide experience to identify and select a corporate that fulfills the requirements to receive the Award. Loyola centre for “Business ethics and Corporate Governance” closely monitors the process of selection.

Companies are invited to apply for the Award through an advertisement in national newspapers (see annexure 1). The jury meets and decides on the criteria to be adopted to select the awardee. Our students scrutinize the reports sent by the companies. They also use secondary data to countercheck the statements and throw more light on the activities of the companies. Based on the ranking and detailed reports provided by the students, the jury will shortlist three companies for the final presentation.

The shortlisted companies will make the final presentation in the presence of the jury, the faculty and students of LIBA. A straw vote is taken from the audience.

After careful consideration and discussion, the jury unanimously chooses the winner of the Award for their significant contribution towards the society. The runners up will receive a special commendation during the award ceremony.

The Recipients of the Award: 1998-2004
1998 : The award was given to Titan Industries by Shri. Ramakrishna Hegde, Honourable Minster of Commerce, Govt. of India
1999 : The award was given to Tamil Nadu Newsprint and Paper Ltd (TNPL) by Shri. Montek Singh Ahluwalia, Member, Planning Commission, Govt. of India.
2000 : The award was given to Orchid Chemicals & Pharmaceuticals Ltd by Shri. Murasoli Maran, Honourable Minster of Commerce, Govt. of India
2001 : The award was given to Indian Oil Corporation Ltd by Shri. N. Rangachary, Chairman, Insurance Regulatory & Development Authority.
2002 : The award was given to Shriram Investments Ltd by Prof. M.S. Swaminathan, F.R.S., Chairman, M.S. Swaminathan Research Foundation, Chennai.
2003 : The award was given to Polaris Software Lab Ltd by Shri. P. Shankar, IAS, Chief Vigilance Commissioner, Govt. of India.
2004 : The award was given to TVS Motor Company by Shri. M.Damodaran, Chairman, SEBI, Govt. of India.

Presentation of the Award:
The Mother Teresa Award is presented annually under the aegis of the Loyola Centre for business Ethics and Corporate Governance in a glittering public function held at LIBA and presided over by an eminent public figure who also delivers an Oration on an ethical issue of current importance. The recipient of the award gives the acceptance speech.

The outcomes:
I) The concept of ‘the good company’:
   i. We reached among ourselves greater clarity regarding the concept of “the good company” itself. A good company is one that organically integrates corporate social commitment with its legitimate business goals rather than tend to treat it as a mere charitable extension of its profile for benefiting the needy in its neighbourhood. We could quote as an example Titan Industries Limited the first recipient of the Mother Teresa award in 1998; Titan was conferred this recognition for the following two
specific initiatives of social concern which they have integrated with their legitimate business goals:

- The Employment of the handicapped: Through a conscious effort to provide them employment, Titan employs in its plants in Hosur and Dehra Dun, one hundred and sixty nine physically handicapped persons. These handicapped comprise hearing handicapped, persons with movement impairments and the visually handicapped.

- An income generation project for rural women in association with the Mysore Rehabilitation and Development Agency – MYRADA: In concert with MYRADA, Titan has initiated a project in Denkanikota in which, to date (1998), one hundred and sixty four unemployed young ladies have participated. Components of watch straps are dispatched to the unit in Denkanikota for assembly and return. Through a scheme conceived by MYRADA, these young ladies are today part owners of the enterprise.

Similarly the recipient of the award for 1999, **Tamil Nadu Newsprint and Paper limited** was conferred the award for enabling irrigation of arid land in the company’s neighbourhood through proper treatment of its effluents and thus making a tangible contribution to the upliftment of peasant families.

Another important aspect of “the good company” is the involvement of all the employees in the social projects initiated. A “good company” does not relegate the concern for social responsibility to a few at the top or to a separate department / cell. Through a participative process, the management and the employees together develop a concern for the welfare of the neighbourhood: Thus for example **Polaris Software limited** was presented with the Mother Teresa Award for corporate citizen for the year 2003, not only for its deep commitment to the cause of the poor especially of the youth from the underprivileged sections but was especially commended ‘for devising a successful system for involving all its employees in its social service activities’

“The good company” also puts Systems and Procedures in place so that the good work done is carried further into the future and there is continuity of the welfare schemes once initiated. Thus for e.g: **SHIRAM Investments Ltd** was conferred the Mother Teresa Award for corporate citizen 2002 : “Apart from initiating various welfare measures giving evidence of its social responsibility, the company was commended for “devising and building a successful delivery system within the organisation to continually execute social welfare Programmes”. Similarly **Larson & Tourbo limited** (2003) was commended for institution of Family Planning and HIV awareness programme and putting in place a set up to ensure it on an ongoing and continuous basis.

We also find that ‘the good company’ in its welfare measures can focus on measures that does the greatest good to a great number of people:

For e.g: a Public sector, enterprise **Tamil Nadu Newsprint & Papers Limited (1999)** was recognized for its “successfully employing an eco friendly technology”. Similarly **The orchid chemicals & Pharmaceuticals limited** (2001) “took conscious measures at considerable cost to eliminate industrial pollution by totally re-cycling the waste from its plants”.Similarly **Indian Oil Corporation limited (2001)** for ‘its abiding commitment to gender equity’ and “for its concern for environmental protection in establishing green field projects around its factories and facilities”. Similarly **SHRIRAM Investments Ltd (2002)** for its consistent and eminently successful search “for being a vehicle of prosperity to the largest number of common people, singular commitment to gender equality, and abiding commitment to environmental protection”. Similarly **Polaris**
Software Lab limited (2003) has been commended for its abiding commitment to gender equality and for the environment and its being a green company in establishing a sewage treatment plant for water conservation”. Similarly TVS Motor Company was conferred the Award (2004) for its promotion of “Hundred of self Help groups that are engaged in income generation activities for the benefit of the poor and the neglected all over the state and for its concern for environment protection in establishing Greenfield projects not only in and around its factories and facilities but also in far off locations that need to be habitable”.

Thus the nomination of the different companies for the Mother Teresa Award has brought to the fore certain important dimensions that the company considered as “a good citizen” could incorporate into its practice of social responsibility; Some of these among others are:

I. Organic Integration of corporate social commitment with the legitimate business goals of a company

II. The involvement of all the members of the company – the management and the staff in the welfare measures initiated by the company thus helping to bring about a sense of social responsibility among all the members

III. Setting up of systems and procedures to ensure continuity of the good work once initiated.

IV. A concern for the greatest good of a great number of people.

These are some of the new dimensions of social responsibility that have come to light in our search for ‘the good company’ to be nominated for the Mother Teresa Award.

II) Apart from clarifying to ourselves how more profoundly the company can play its role in the society as a ‘good citizen’, the selection and the conferring of the Mother Teresa Award has proved to be an educative process in itself. The participative selection process of the awardee in which the staff and students of the institute are fully involved, sensitizes them to the ethics and social responsibility of business far more effectively than any member of lectures and reading material on the subject. This has proved to be so in practice through the avowed testimony of the faculty and students:

i. First our faculty and students closely study, discuss and refine the criteria involved in the selection of the awardee. These criteria have been listed above. This process of refinement of the criteria helps them understand how ‘the good company’ apart from conducting its business profitably can contribute to the welfare of the society and how this concern for the welfare of the society ought to be embedded in the mission statement of the company and be organically linked to its day to day functioning.

ii. Once the students are clear about the criteria for selecting “the good company”, they examine critically the applicants who have responded to our invitation calling for nominations for the award published in the leading dailies. Our students under the guidance of the faculty make an indepth study of the data provided by the companies. They gather additional data about the prospective corporates by searching the internet, by gathering relevant information from magazines and periodicals and through their own personal enquiries about the company and make a presentation of all the data collected about the company together with their considered opinion about the company before the jury of eminent people appointed to decide on the awardee. They also present the Jury with a score card of points awarded to each of the companies on the basis of the criteria evolved earlier. The difference in score points awarded earlier by the students is discussed indepth by the students in front of the faculty and a consensus arrived at and a common score card of points is finally presented to the Jury (One such sample score card is enclosed). The jury after viewing these presentations and examining the score card makes an assessment on their own of the prospective corporates after a discussion among themselves.
They finally shortlist three companies and senior executives from these companies are asked to make a presentation before the Jury, the staff and students. They also answer queries raised by the participants. At the end, the staff and students are asked to rank order the companies as to who they would consider to be suitable for the award. This is done by circulating a paper among the staff and students and the rank ordering is duly weighted with points and the Jury then announces the name of the company who will receive the Mother Teresa Award. The other two who are runners up in the competition will be presented with “Commendations” at the Mother Teresa Award Function.

This elaborate process of the selection of the awardee involving the jury, staff and students being participative in nature, helps to highly sensitize the students who would be future managers to ethics and corporate social responsibility.

III. The Award helps educate not only the staff and students of the institute but also the corporates in the field. They closely follow the event and attempt in course of time to emulate ‘the good company’ that has been singled out for recognition. The number of claimants for the award have increased from 10 in 1998 to nearly 120 in 2005. These corporates have come to realize what ‘a good company’ is and the need to become one themselves.

IV. The wide coverage given to the glittering Award Function in the media and the oration given by an eminent person on the occasion make the public aware of how ‘a good company’ ought to behave. After reading the coverage given to the function, a good number of people in their letters to the editor apart from congratulating the recipient of the award, express a keen desire that many more companies must emulate the awardee and become ‘good companies’ themselves.

Thus the Mother Teresa Award has not only clarified to us the new dimensions and opportunities available to a company for becoming ‘good’ but has also served as an effective pedagogical tool for educating the future managers of the institute and for sensitizing the corporates themselves and the public regarding the need for becoming the ‘Good Company’
Unifying a Divided Life: Enhancing the Social Justice “Learning” in Service-learning by Building Critical Reflection Skills

Steven D. Papamarcos and George W. Watson

Introduction
Clark recently observed that “Catholic social thought is based on the ideals of the Gospels, but it is also based on an interdisciplinary and realistic understanding of the nature of the human person, society, property and the purpose of business” (2004; 6). If, indeed, CST relies on a realistic understanding of people, places and practices, it exposes itself to classic “levels” issues and all of the associated challenges. For instance, in this paper, we suggest that many businesspeople may be selectively cueing values, and thus living divided lives (see also Alford & Naughton, 2001). The questions are: 1) Is this true? 2) If true, what, if anything, can we as management educators do about it?

The “Levels” Challenge
In the business arena, revelations of “tax-free” paintings, a $2,000,000 birthday party, massive off-balance-sheet “entities” blessed by auditors, manufactured earnings, front-running trades, disappeared e-mails, simple theft, and the loss of hundreds of billions of dollars in retirement savings have reinforced the idea, valid or not, of government alone as a civilizing counterforce to corporate plunderers. Globally televised “perp walks” have recently featured graduates of some of our most prestigious schools of business. At the same time, the accused regularly are portrayed entering or leaving religious services, and often make claims to great piety and generosity. Is this simple hypocrisy? Do people hew to different values in different contexts? Or have these otherwise sophisticated and perhaps honest and caring individuals just wandered into ethical quick-sand while bird-watching? And is any of this our fault? Are we, as management educators, teaching our students to parse their professional life from their spiritual life? If so, what can we do about it?

Service-learning in Management Education
Business is under attack on a variety of bases, and so is business education. Studies increasingly highlight the problematic linkage of business education and business success (Leonhardt, 2000). There is also a view, too widespread to be ignored, that colleges and universities and their students are largely alienated from notions of the public good, and focused solely on achieving competitive advantage in a world of scarce resources (Godfrey, Illes & Berry, 2005). In fact, some fairly basic yet pointed questions are now being asked regarding the societal efficacy of business education (Emiliani, 2004).

Believing, as a matter of principle in practice, that colleges and universities are obliged to prepare students to affirmatively contribute to civil society, many business school professors have integrated service-learning exercises into their courses. Service-learning links service to the community with students’ academic and career goals. It challenges students through reflection and analysis to grow academically while experiencing the value of service [Wade, 1997]. It differs from other forms of experiential education in that academic advancement is not the only objective [Dahlquist, 1998]. Ideally, the academic side enhances the service side, and the service
experience the academic. It’s been a good start. At the same time, it’s recognized that more can be done—for example, the senior author’s recent article evolving a “new” type of service-learning was highlighted as an “Exemplary Contribution” by the Academy of Management (Papamarcos, 2005). In the paper presented here we briefly review service-learning’s empirically demonstrated effects and then offer a series of critical reflection exercises that assist the service-learning instructor in unearthing issues frequently lost to students struggling to place today’s business policies and practices in the context of their spiritual lives.

**Service-learning as an Answer?**
The benefits of participating in traditional service-learning are well-documented. Findings indicate that the service-learning experience enhances social responsibility and personal and value development at a variety of academic levels (Anderson, 1995; Astin & Sax, 1998; Batchelder & Root, 1994; Boss, 1994; Bringle & Kremer, 1993; Eyler & Giles, 1999; Giles & Eyler, 1994; Gorman, Duffy & Heffernan, 1994; Hamilton & Fenzel, 1998; Haynes & Comer, 1997; Hedin & Conrad, 1991; Holland & Gelmon, 1998; Kendrick, 1996; Kinsley, 1993; Kolenko, et al., 1996; Markus, Howard & King, 1993; Myers-Lipton, 1996, 1998; Nnakwe, 1999; Olney & Grande, 1995; Williams, 1991) as well as self-efficacy and related constructs (Giles & Eyler, 1994; Johnson & Notah, 1999; Kendrick, 1996; Moore & Sandholtz, 1999; Myers-Lipton, 1998; Shalaway, 1991; Switzer, Simmons, Dew, Regalski & Wang, 1995; Tucker & McCarthy, 2001). Experience also indicates that service-learning improves skill levels and academic performance (Berson, 1994; Brown, 2000; Checkoway, 1996; Friedman, 1996; Gray, Ondaatje, Fricker & Geschwind, 2000; Haskvitz, 1996; Markus, et al., 1993; Shumer, 1994; Wild, 1993; Zlotkowski, 1996), and allows students to better place classroom material in meaningful context (Cohen & Kinsey, 1994; Zlotkowski, 1999). While scholars are yet to empirically investigate the efficacy of the service-learning experience vis-a-vis career outcomes, anecdotal evidence also suggests that properly structured projects may have a substantive impact.

**Can We Do Even Better?**
In our experience across numerous service-learning engagements, we have found, in addition to these many strengths, some weaknesses, including the ‘given-ness’ of the service experience itself. Experience indicates that immersion in a real-world task tends to attenuate the possibilities of critical reflection. An emphasis on the practical dimension of the exercise may affect the way knowledge is transformed, and students may place more emphasis on the development of practical skills and less on the social circumstances (e.g., homelessness, unemployment, addiction, mental illness, and other health-related issues) that created the need for their project in the first place. How do we enhance the social justice “learning” in service-learning and, in so doing, more fully educate the complete person?

**Building Critical Reflection Skills in the “New” Service-learning Classroom**
In an attempt to expand the more traditional service-learning search space along the lines suggested by Kenworthy-U’Ren (1999), we have evolved a qualitatively different type of service-learning involving integrative, team-based projects resulting in structural change. Given a general understanding of service-learning, “team-based” service-learning becomes largely self-descriptive, involving, as it does, groups of students engaged in assignments too large in scale or scope for any one individual to complete in a timely manner. “Structural change” refers to engagements that continue to “serve” after the semester has ended.
While reflection figures prominently in the “new” service-learning experience (see Figure 1), applying a given set of critical thinking exercises aimed at increasing the quality of student insight during the reflection phase may help limit the challenge of given-ness. We seek ways to allow students to unify academic and spiritual priorities. Our projects, and suggested interrogatives, allow for the consideration of broader social and spiritual issues, strengthening the intellectual and moral development possible through experiential learning.

**Figure 1**
*A Model of the “New” Service-learning*

*Section 8 Housing*

Two years ago, our students, in the context of a service-learning project, founded two companies that purchase, rehabilitate, or build government subsidized housing in the New York-New Jersey metropolitan area. Thus far, two buildings have been purchased, rehabilitated and rented in New Jersey. Another 16 units of new Section 8 housing have been built in New York City. In addition to developing comprehensive business plans, the students were asked to identify the forces creating the need for subsidized housing in the first place. Globalization? Minimum wage rates? Education? Family structure? Discrimination? Child-care? Gentrification? Capitalism itself? Similarly, they were asked to explore the responsibility of the fortunate to the disadvantaged on a variety of bases and from a variety of perspectives.
Janitorial Services Company
Recently, one of the world’s leading charitable organizations challenged our students to help develop employment opportunities for the organization’s client population (immigrants, the elderly and the disabled). The result was a comprehensive business plan for the establishment of a not-for-profit, commercial janitorial-services company, now being readied for launch in Queens and Brooklyn, New York. Employees will be paid a living wage, receive comprehensive benefits, and the opportunity for personal as well as professional growth. For the students, project comparisons proved provocative. Is this type of venture at least a partial answer to the questions raised in the housing project described above? How will the janitorial-services company address some of the social issues surfaced in the prior engagement? For instance, what level of education will be required of employees? Will child-care be provided? Is what is nominally considered a “living wage” too little to support a family in New York City? Is a living wage too much for the company to pay while remaining competitive in this hypercompetitive market? Will the new company’s employees lose their eligibility for government assistance? Housing? Medicaid? SSD or SSDI? Welfare? What trade-offs exist? How will they be resolved? How should they be resolved?

Mental Health Association
The client association in this instance is a New Jersey-based not-for-profit organization providing health care services to the mentally ill of Mercer County. Increasingly, the aging parents and guardians of the association’s clients have become concerned about the care of their loved ones once they (the caregivers) are no longer able to continue in that role and the adult children are left to face their problems alone. Without daily care and counseling, many of these individuals eventually are institutionalized. The client approached us seeking a solution. Preliminary analyses led us to believe that this might be a manageable underwriting risk. The students assisted in the establishment of comprehensive case-management services, developed a service-portfolio profiling tool and, working with a major financial institution, crafted a financial-planning mechanism to fund the adult child’s continuing care. Based in large part on the work of the St. John’s students and the global scope of the challenge, the client was awarded a $250,000 grant by the Robert Wood Johnson Foundation to seed the program, which carries with it the potential to reshape the financing and delivery of mental health care services. Over the past three years the program has been staffed, outreach established, and thirty client families registered. During the project, students reflected on the macro-level responsibility of all of us to a few of us. Are we really our brother’s keeper? Students also addressed micro-level questions. Assuming an affirmative answer to the above question, how do we fund the developmentally challenged individuals’ continuing care? Who should pay? How much is enough? How much is too much? Should care be a governmentally delivered service? Are private providers better equipped to deliver managed care services? If so, should a single payer system be used? Or, should we simply subsidize private insurance, allowing choice on a case-by-case basis?

Conclusion
Returning to Clark’s work, we firmly agree that “As an ethical foundation for understanding the role of business in the life of the person and society, Catholic social thought forces an education in business to be more realistic than it typically is” (2004; 6). We also find that the type of service-learning advocated here is one way of linking the two.
By entering into these university-community partnerships we, as management educators, allow students to learn the details of a particular course content area; have the opportunity to develop, apply, and refine communication and interpersonal skills; interface with an actual client; develop the creative and critical thinking skills so prized in today’s complex business world; engage in possible career exploration; gain real-world experience helpful in a prospective job search; interact with diverse others; and understand the various issues and constraints facing other members of the community. Students also, often for the first time, confront the ambiguity of a complex management challenge where key facts are not known a priori. They also must address the shifting requirements of project work as facts are gathered and interim objectives evolve. Often, learning of and learning to overcome the uncertainty inherent in real-world problem-solving is a major benefit of the service-learning experience. Importantly, students gain this knowledge, skill, and confidence while providing a valuable service to their community and a living example of Catholic social thought in action.
Orthodoxy and Orthopraxis: Teaching Business as a Vocation

John C. Médaille

Does Faith Really Matter?

In the introduction to their textbook, Managing As If Faith Mattered, Helen Alford and Michael Naughton note that:

We have been educated and trained, by default usually, to work as if faith is a category completely separate from work…We cannot let the ethical or religious principles of our faith interfere with the way we manage the perplexities of organizational and professional life, in case this could compromise our efficiency or our return on capital.¹

However, if ethics and business have become separated, it is not for lack of an effort to join them in the field of business education. Since the 1970s there has been a thriving trade in “business ethics” courses, so that by the mid 1980s, there were at least 500 such courses with 40,000 students, at least twenty textbooks, and numerous societies, journals, and centers of business ethics.² Despite all these efforts, a glance at the business headlines reveals that nothing much seems to have changed since the days of the robber barons, and the proliferation of business ethics courses hasn’t done much to change the actual practice of business. Where, then, can we locate the failure of business education in the face of so much effort?

Economists have come to think of their science in positivistic terms, a set of value-free, mathematical formalisms. Such a “science” requires very little of ethics, beyond notions of sanctity of contract and inviolability of private property. As these things can be provided by positive law, there is very little for the theologian to do. Indeed, the theologian has lost confidence in his or her ability to make meaningful judgments on economic matters. Yet despite its “positive” bias, the neoclassical economist makes specifically moral claims, such as touting capitalism as “the perfect system of natural liberty,” without confronting the terms “nature” or “liberty,” or asking where their perfection might lie. The economist deals with a “free” market without proper reflection on the nature of freedom. Only theology can provide the proper context for these terms, and many others as well. Therefore, the theologian must exercise his rightful function, both for the sake of theology and economics.

From the standpoint of faith, the pedagogical task is profoundly countercultural. Economics is the social practice of the moral law. Without being embodied in specific economic and cultural systems, orthodoxy loses its necessary orthopraxis, while economics (orthopraxy) wanders without a necessary orthodoxy. However, as a practical matter, it is impossible for the two to be separated. What happens in practice is that economics grows its own orthodoxy, a utilitarian ethic that cannot be traced to the science itself, but upon which the “science” is dependent. Orthodoxy for its part grows a praxis which either makes the social teaching a handmaiden of some economic system (as in neoconservatism), or else it makes moralistic demands on the social system without regard to the economic consequences (neoliberalism). In either case, theology becomes a servant of ideologies rather than their critic.

But there is a further pedagogical problem. From their earliest youth, students have been harangued about the connection between education and income, but have heard very little about the connection to virtue; if they have come to equate education with money rather than virtue, they could hardly be blamed. What business schools are really marketing is a claim to “expertise” based on a morally neutral “science” of organizing social ends.³ The society (be it the political or corporate society) will choose its goals, and the manager will implement them in the most efficient manner. Of course, this claim to a “scientific” expertise is spurious; the social
sciences simply do not lend themselves to the kind of law-like generalizations that could validate such claims.4

Rather, management is an art; it requires an understanding of the density of human motivations, of the relationship of things (means) to persons (ends), and the relationship of persons to other persons in their individual, social, and economic complexity. That is to say, management is about virtue. Without the virtues, the student, and the manager he or she will become, is simply not equipped to handle the complexities of business or of the wider world in which any business exists. As the “reformed” management consultant, Matthew Stewart, puts it:

As anyone who has studied Aristotle will know, “values” aren’t something you bump into from time to time during the course of a business career. All of business is about values, all of the time. Notwithstanding the ostentatious use of stopwatches, Taylor’s pig iron case was not a description of some aspect of physical reality—how many tons can a worker lift? It was a prescription—how many tons should a worker lift?5

This failure of the business schools leaves open an opportunity for Catholic Social Teaching. For while students may have been conditioned to confuse education with money, what they really want is not so much money as meaning. Young people especially want this meaning in their lives, but their education—and the wider culture—so often trivializes their deepest aspirations. Therefore, the social teaching presents us with the opportunity to take the young seriously, to speak to them as nobody else in the business school can. This consists in showing them that they are training not merely for a job but for a vocation, a calling to fulfill the gospel in the concrete world, to move their society closer to the Kingdom of God, even if only by an inch or two.

The Two-Fold Task

Teaching the Social Teaching requires that theologians regain confidence in their ability to make judgments about economic theory and practice. This in turn requires that they offer a critique of neoclassical economics on at least two levels that fall within the domain of theology. The first is to examine the utilitarian basis of neoclassicism in order to show that it offers only a crippled and incomplete view of man, who is the subject of economics. The second level, related to the first, is to show that the mathematics of the new science, lacking (as it does) a proper distributive principle, is simply incapable of describing the actual situation in any economy, and in any case has never demonstrated any actual descriptive or predictive power. This critique does not in any way displace political economy as a separate science; the theologian does not become an economist. Rather, by placing political economy in proper relationship to its undeniably moral and cultural roots, theology strengthens political economy as a science, since every science is dependent on a higher science; thus biology is dependent on chemistry, and chemistry on physics. No biologist can arrive at a valid conclusion that contradicts chemistry, nor a chemist make a finding in despite of physics; each science is dependent on its near neighbors in the hierarchy of truth. The physical sciences terminate in physics, but the humane sciences terminate in psychology, anthropology and, ultimately, theology.

It is not enough, however, merely to play the critic. The social teaching must be shown to have practical applications, both in history and in the present moment. A teaching that has no practice will be viewed by the student as suspicious, a mere collection of platitudes, and the student would be right to be suspicious. The social teaching must be capable of being embodied in a social practice, and if there are no such practices, it would be clear evidence that the teaching is an empty theory, a set of useless abstractions. Therefore, the pedagogical task is two-fold: right thinking and right action, orthodoxy and orthopraxis. The remainder of this paper describes
the approach to this problem taken in the “Social Justice for Business Majors” course at the University of Dallas.

Orthodoxy

The History of the Question

The first part of the course introduces the major themes and discusses the historical background. Of course, it is possible to face these questions apart from their particular histories. However, the use of history has some particular pedagogical advantages. For one thing, it allows a presentation of ideas which is, at least initially, more “neutral.” Although we certainly do judge the ideas and events, they can be presented, in the first instance, as simply things that happened. The historical presentation helps to overcome what might be a certain resistance to ideas that might strike the student as novel and alien. In the second place, the historical presentation allows us to see our own situation in relation to the past and to its own development. When we see how ideas have developed, we can also see how they might have developed differently. Finally, without understanding the history of any question that touches on human welfare, it is impossible to fully understand the question and hence impossible to arrive at sane answers; we cannot find the way out unless we understand the way in.

The Moral Dialogue. The modern world casts a peculiar shadow over any discussion of morality, one that reduces morality to mere personal preference. Recovering an authentic moral dialogue requires that we see the individual as a “person,” a being in relationship with others. And since it is about right relationships, the moral dialogue is always a cultural discourse embedded in narratives and practices that are dependent on some notion of the ultimate purpose and nature of man.

Justice and Economics. The average person takes economics to be something fixed and permanent. But in fact, there have been a variety of approaches to the problems of economics. Pre-capitalist economics relied on a unity of distributive and corrective justice that attempted to balance the personal and social aspects of man. With the rise of capitalism, purely individualistic notions of economics began to dominate, and the unity of corrective and distributive justice was shattered. Eventually distributive justice was banished by the triumph of marginalist economics.

Property. Economics deals with social relationships and the most fundamental social relationships are property relations. Property is the foundation of all wealth, and the rules for the distribution of property will dictate economic outcomes.

The Social Encyclicals

Having laid the proper groundwork by considering the major issues through the historical presentation, the student is prepared to deal directly with the Church’s teachings, teachings that are outlined in the social encyclicals. These encyclicals define “orthodoxy” for the purposes of this course. In reading the encyclicals, the student is encouraged to come with an open mind and abandon, insofar as possible, the ideological baggage that we all carry with us. For this course, the student reads three of the encyclicals, Rerum Novarum, Laborem Exercens, and Centesimus Anus. These are presented with as little editorial comment as possible in an attempt to understand merely what the pontiffs are saying.

Tensions between the Social Teachings and Economic Theory

The next task is to examine the tensions between Catholic social teaching and orthodox neoclassical economic theories with a view toward resolving the issues. The first task is to
compare the major themes from the social encyclicals to the corresponding ideas from neoclassical economics in order to highlight the tensions between them. Since it is necessary to judge between these views, our next task is to establish the criteria for an “ethical” economics that will allow us to judge the various solutions to the economic questions. This judgment will come down to choosing between two views of the human person, and between two views of the allocation and pricing mechanisms. Both of these choices may be subsumed under a comparison of a pure economism and an economic personalism.

Responses to the Social Teaching

Since the social teaching of the Church is not in itself an “economic system,” it calls for a faithful response from the laity in order to bring it to life in the world. There is not necessarily one “right” way to realize the teaching in the real world, but human ingenuity and the freedom given by a proper understanding of economics will allow a variety of implementations. This does not mean that all responses are equally effective or equally embody the spirit and content of the teachings; any implementation will start with a certain theoretic approach which will give the boundaries to that implementation.

The dominant tradition is examined through the lens of neoconservatism. We examine the neoconservative response through a critical reading of one of its “founding” texts, Michael Novak’s *The Spirit of Democratic Capitalism*.6 As a representative of the residual tradition, we use the “Distributivism” of Chesterton and Belloc, mainly through an examination of Belloc’s *The Servile State*7 and *Economics for Helen*.8 Between the two poles represented by neoconservatism and distributivism, we construct a range of analytic tools for relating the social teachings to current practice and theory. At one end of the spectrum, the analytic tools are simply those provided by neoclassical economic theory, and the current structure is left intact. At the other end of the spectrum, we use the tools provided by a consideration of distributive justice, namely, a theologically informed view of natural law which is used to discern the purpose of an economy, the cultural basis of “merit” that is the basis of distributions, and an examination of the close relationship between equity and equilibrium.

Orthopraxis

The social teaching, and any theories one might derive from it, is worthless if it cannot be implemented by societies and businesses. Our final task is to examine real-world implementations of the social teaching such as the distribution of land and the means of production, and the just wage.

**Land Redistribution.** Taiwan and the other “Asian Tigers” broke up the aristocratic monopoly on land and redistributed it to the farmers. The result was a flourishing—and internationally competitive—manufacturing economy.

**Globalization and Development.** In contrast to Taiwan, the development of other “backward” economies has been less successful, indeed retrograde. Why, after pouring trillions of dollars into development and opening up “free” markets, have the results been so poor? The promise of globalization is that it would be a rising tide lifting all boats. But this has not happened. What went wrong? In a shrinking world, development must come to all, or all will be destabilized. The failures of the World Bank are compared with the successes of other approaches.

**Micro-Banking.** What separates economic success from grinding poverty is the possession of capital, often just a few dollars’ worth of capital. The success of the Grameen Bank
of Bangladesh in providing small loans to impoverished people is examined. Grameen is, in
many ways, the best illustration of the effectiveness of distributive justice, even in small
amounts, in eradicating poverty.

Cooperatives. The objection remains that distributive justice is simply impractical in a
world where manufacturing requires large-scale production and huge amounts of capital. The
answer to this objection is given by the Mondragón Cooperative Corporation, an employee-
owned conglomerate in Spain with sales of $16 billion/annum and 77,000 worker-owners.
Mondragón cooperatives offer an immense range of products and services, from the simplest to
the most technologically sophisticated.

The Just Wage in the Corporation. The most immediate problem facing most students
when they begin their professional careers are those of the “normal” corporate environment, an
environment where land redistribution and micro-banking may not be immediately useful.
Moreover, each business exists in a competitive environment in which it may be necessary to
compete with low-wage labor from around the world. Nevertheless, the corporation exists under
the same moral imperatives, imperatives which must be harmonized with normal business
requirements. The problem would seem to be, therefore, intractable; on the one hand we have a
business requirement and on the other a moral requirement and the two are in conflict; there is an
intrinsic opposition between the needs of labor and the needs of capital, and no moral
requirement can overcome this opposition.

However, this opposition is based on a false notion of man, work, and even of economic
science. Not only can the opposition between labor and capital be overcome, but it can be
overcome in a way that confers competitive advantages on the firm and its workers. Here we
examine actual firms which have found the key to overcoming the opposition between capital
and labor and, in the process, found competitive advantages by doing so. Indeed, when we
examine the work process, we find that it is often based on a false notion of “efficiency,” a
notion that is in itself very inefficient, imposing as it does, excess management burdens and the
attendant agency problems.

The Vocation of Business

When students embark on their education, they are, quite properly, concerned with what
kind of work they will do. Business training promises to offer a clear path and a way to get both
an education and a career. However, the reduction of education to mere job training, to the
mastery of a certain set of practical skills shortchanges both the students and the society they will
serve. Students do indeed think about their careers, but they also think about other things. More
than mere money, they want meaning in their lives.

1 Helen J. Alford, O.P. and Michael J. Naughton, Managing as If Faith Mattered: Christian Social
3 Alasdair Maclntyre, After Virtue: A Study in Moral Theory, Second Edition ed. (Notre Dame, Indiana:
4 Ibid., 86.
Concurrent Sessions IV/Sessioni simultanee IV
TOMASSO CORPORATION – OUR PROJECT
A SUSTAINABLE THIRTY-FIVE YEAR EXPERIENCE OF CHRISTIAN ANTHROPOLOGY AND THE COMMON GOOD IN A COMPETITIVE INDUSTRY

Dr. Thomas A. Bausch and Dr. J-Robert Ouimet,

Summary and Introduction

“Tainted are the gifts of the one who offers in sacrifice ill-gotten goods! Mock presents from the lawless win not God’s favor. The Most High approves not the gifts of the godless, nor for their many sacrifices does He forgive their sins. Like the man who slays a son in his father’s presence is he who offers sacrifice from the possessions of the poor. The bread of charity is life itself for the needy; he who withholds it is a man of blood. He slays his neighbor who deprives him of his living; he sheds blood who denies the laborer his wages. If one man builds up and another tears down, what do they gain but trouble?” (Sirach 34:18-23)

In 1933, in the midst of the Great Depression the Father of J-Robert Ouimet in the basement of his modest home in Montreal founded Holding OCB which still exists and thrives managing financial portfolios and participating in the management and operations of companies in the food business, especially the frozen food business. From the very beginning there has been a deep concern with the development of a workplace culture and environment that is not only efficient and profitable, a necessary condition for survival, but also one that develops the human person, not just those in management, but in the entire organization. Approximately forty years ago these deep and authentically Christian values began to crystallize, take form, in experimentation, observation, and measurement in what is now referred to as “Our Project”. At the moment “Our Project” is manifested primarily in Ouimet-Tomasso, Inc

This paper begins to demonstrate how “Our Project”, as implemented by Ouimet and his team, is grounded in a Christian Anthropological understanding of the human person and the common good as manifested by the system of activities within Tomasso in the concrete circumstances of a segment of the highly competitive prepared food industry (primarily frozen food entries). In addition to the theoretical underpinnings the paper describes in some detail the system of integrated activities that is in place and the 40 years of experimentation leading to the culture and operations of the organization that exists today.

The quotation from Sirach captures well many of the foundational principles of Tomasso. The dignity of each person in the organization is grounded in God’s love. If to deny just wages is so horrible, what must be the tragedy of stealing dignity and humanness from employees? In many organizations it appears that management steals dignity by depriving the employees of purpose and meaning. The need to build a sustainable organization, not subject to the whims of powerful managers and stockholders, but which provides stability for the weaker stakeholders is a critical justice issue.
Thesis

The basic thesis of the paper begins with the assertion that the only source of sustainable competitive advantage for any organization in the twenty-first century is the commitment of competent and morally good people\(^1\) to the mission, vision and core values of the organization. Most evidence indicates that technology, control of natural resources, new marketing paradigms, the best in current production techniques and so on are at best temporary advantages. Any firm must meet the economic demands of the marketplace. As a caveat, if persons are treated well primarily because these actions lead to profit, there will not be sustainable profit. The treatment must flow from a Christian understanding of the dignity that is integral to each person.\(^2\) These commitments by persons are only sustainable if persons are enabled by a system of activities consistent with solid Christian Anthropology and other aspects of Catholic Social Thought. That is, the business firm, any organization, must enable the person to become, through his or her work, who he or she has been for all eternity in the eyes of the creator.\(^3\) As John Paul wrote, “The person is the subject of his or her work.” This robust understanding of the human person, which includes the non-negotiable truth that the economy exists for the person, not the other way around, is possibly the greatest understanding CST brings to the dialogue with CSR. Tomasso has translated theory into operational practice.

Corporate Social Responsibility brings to the dialogue an understanding of the organization and an understanding of the role of the organization in a global society, as well as an understanding of the relationship between the human person and economic reality in the modern world that gives concreteness and specificity to the concept of the common good that is often lacking in CST, especially for the business sector, the micro-sector, or firm level.\(^4\) (This is not a criticism of those who do CST in the magisterium, Adam Smith would call it legitimate division of labor. It is a criticism of those of us who do CST in the academic world.)

The forty-year experience at Tomasso Foods and its predecessors indicates that a marriage between the foundations of CST regarding the person and excellent “economic organization” as it developed in the twentieth century is not only possible, the marriage itself enables the implementation of the common good.\(^5\) This marriage does not happen by chance, but is rooted in Transcendence. Part of the genius of the “Our Project” model is that all actors in the company’s life freely interpret the value of transcendence in their own way. This is true even though the model itself grows from a Trinitarian model of Transcendence. This paper describes how CST, especially a solid Christian understanding of the person, grounds the values, logic and culture of Tomasso.

Logic of the Paper

The Our Project model builds on the following elements of the definition of a human person:

1. Vertical relationship to the Triune God as source of dignity. The key point is that dignity is not earned, a title or a position, but derived from a creator out of love and for love.
2. The complexity of the human person.
Each of these elements is good and deeply affirmed by the Incarnation.

3. A triple paradox that becomes a point of convergence with CSR, especially systems theory,\textsuperscript{6} triple bottom line,\textsuperscript{7} and the work on holons by Ken Wilber\textsuperscript{8}

4. A conviction that a person is radically free to be a self project.

5. A person is engaged in a life task, that is he or she is the subject of her or his work through the development of virtue. This is a tie to work in CSR based on Covey and Maslow.

6. The communal nature of the human person, which is an idea far from individualism. As the African tribes say, “A person becomes a person through other persons.”

7. The end of a person becoming who he or she has the potential of becoming in the organization requires executives and managers to demonstrate the feminine dimensions of the Transcendent. It requires them to act as mothers in the organization.

Tomasso depends on a definition of the business organization as an instrument of the common good that enables the community of human persons to co-create in the economic sphere.\textsuperscript{9} This model, and this is another point of convergence between CST and CSR, bring together social contract theory and the specification of the common good. Further, it appears to us that the Our Project model works because it avoids the confusion between final and motivational causality that exist in many models of the business organization. It also, as a point for further research is a lament for the demise of the Holland Land Company.

The paper examines four possible dynamics of organizational life\textsuperscript{10} and demonstrates that Tomasso can be classified in the first. The first is a spirituality oriented effort to build the common good drawing on a model rooted in the transcendent. The second is a variant of natural humanism and is the model most applicable to CSR, Corporate Citizenship, triple bottom line and similar companies. The third can be called a Sarx model that probably captures most corporations in the industrialized work, neo-liberal models that approach Chicago School raw capitalism. Finally, there is the dark model, organizations like tobacco companies, legalized prostitution and the entire sex industry, many aspects of the entertainment industry and the Mafia. Just as in the moral life of a person, one can drift from being very moral to evil, so it is with organizations. Tomasso, as part of its system of activities recognizes this fact and builds in safeguards.

An important part of the Tomasso model is a series of practices that in the Ignatian model of spirituality of growth, for both individuals and groups, is called the practice of discernment. This part of the Tomasso model is critical for its success. This dynamic is explored in the paper.

**The Two ISMA’S of the Tomasso System**

The Our Project model consists of two Integrated Systems of Management Activities (ISMA). The first is Economic and the second is Human. The Economic ISMA is focused on serving customers, efficiency, effectiveness and profits. The Human ISMA is based on human dignity and human well being at work. Management scholars and practitioners, beginning with the work...
of the economists of the late eighteenth and nineteenth centuries, but primarily with the
development of modern business in the twentieth century, have caused the Economic ISMA to
flourish, and this is good. It is part of the great act of co-creation. Unfortunately, for many
reasons we leave to history of thought scholars to explore, the development and implementation
of the Human ISMA as lagged. It is true in educational, medical, governmental, church and all
other institutions. On a regular basis business and other publications run articles on how bad
morale is in some set of organizations. And this is not only true with unskilled or factory
workers.

The third part of the model is the Keystone that focuses the tension between the two ISMAS in
constructive purpose and action. Since, in moral order, the human person comes first, the lack
of development and purposeful implementation is the Human ISMA is wrong. Ever more,
however, it becomes apparent that the potential power of the economic ISMA cannot be released.
Our Project has developed and been implemented through 40 years of experimentation as a
vibrant Integrated System of Management Activities.

The words “integrated” and “system” are critical to understanding the model. Most of the
activities in the system are used in other organizations, but very seldom in a systemic way, with
research and regular evaluation, or thoughtfully integrated one with the other. Neither the paper
nor the executives of the company argue that all of the specific activities will work in other
places, although some, like regular evaluation, must be in place. However, we do argue that the
various values that are in this system as part of the Human ISMA must be in any system. Human
dignity must be valued with explicit activities to develop it, but the activities essential in a steel
mill may be irrelevant in a library.

The paper explores the activities Tomasso uses to accomplish seven values. It explores how the
Human ISMA leads to a culture fostering the flourishing of all elements of the fullness of the
human person. They are activities that:

A. Emphasize the dignity that flows from the Trinity as Community and Creator.
B. Embrace the complexity of the human person.
C. Emphasize the firm and the persons in the firm as holons. Special emphasis on
the priority of the family as well as of the human person.
D. Promote and respect the freedom of the person to be a self project.
E. And the organization of work within Tomasso that enable the development of
the full range of human virtues – what it means to become fully human.
F. Build community, that is, enable “a person to become a person through other
persons.”
G. Recognize and support becoming “the full personality”.

The paper briefly explores the relationship of humanization and spirituality especially in the
recognition and development of the keystone. It also touches on the Christocentric and
Incarnational nature of the model.

The final section of the paper explores future conceptual, research and implementation needs, if
this model is to better serve the development of the Good Company. It should be noted that
every single member of management stresses that this is a model in development and that those working for its implementation are human. It is not easy to develop nor something that can be done if one lives with short time horizons.

Directions that are suggested for further work include:

1. The Need for Human ISMA’s for each of the other stakeholders – especially customers, suppliers, community and of greatest importance, the environment.
2. Need to spell-out common good responsibilities of employees within the firm.
3. Develop a more conceptual model out of which activities appropriate to other firms in other industries could flow. (There is a need to address especially the service companies of the knowledge and experience economies of this century.)
4. Better pedagogy for teaching “Our Project” on all levels.
5. Continuing documentation and empirical research

Appendix – Film as a Pedagogical Resource

As the Ethiopian, when asked if he understood the scripture he was reading, said to Paul, “Nobody has ever explained it!” As educators we must care deeply about preparing the students in our classrooms to be tomorrow’s moral leaders in their professions, especially about grounding them in CST. The most frustrating aspect of doing work in Catholic Social Thought in a Business School is often that of reaching these students or of meeting them where they are. Business students are often not receptive to theory, the deductive and the abstract. CST can also come across as preaching, and that “turns off” most students. It is possible to use modern film, to which students are open and sensitive, to lead them into opening their minds to many of the ideas in this paper. Examples from this approach are presented as an appendix.

1 The definition of “morally good” person will be developed in section II.C below.
2 This is consistent with the findings of Ian I. Mitroff and Elizabeth A. Denton in A Spiritual Audit of Corporate America, Jossey Bass, 1999.
3 This paper will be written from a Catholic/Christian perspective, but will emphasize, as does “Our Project” that it must be implemented in full freedom in a pluralistic society.
4 This is not a criticism of the CST documents of the Catholic Church, it is a criticism of the academic community in professional schools who, until efforts in recent years like this conference, have done little to take the first principles of CST and apply them to the institutions of the modern world.
5 A good summary description of “Our Project” entitled “Spirituality in Management Reconciles Human Well-being, Productivity and Profits” and is available from Holding OCB Inc. in Montreal. It is a summary of a very comprehensive dissertation written by Dr. Quimet and available in the library of the Faculty of Economics and Social Science at the Universite de Fribourg.
10 These categories will be developed based on work by Joseph Tetlow, S.J., Choosing Christ in the World, Institute of Jesuit Sources, 1989, St. Louis.
The enterprise as community of people: Bimbo Case

Patricia Debeljuh

Introduction

“I think that the success of Bimbo is because of us that we have founded, we have seen it as, above all, a work to be created, and not as a simple business; due to we did it with our mind and with our heart, that we have believed on people, in the product and in the consumer public” These words, that belong to Lorenzo Servitje Sendra, one of the founders of Bimbo, explain, very clearly, the pillars of the success of this Mexican enterprise.

At the time to meet it to deepen in the fundamentals of its achievements, we realize that we are in front of an enterprise that looks for the integration of the human aspect with the product, seeing the first one as carrier agent, origin and the end of the enterprise and the second one as a media to propitiate the economic development.

It is a company that, understanding deeply the reaches of the business social responsibility, applies from its beginnings, the principles of the Social Doctrine of the Church. The objective of this actual paper is to present Bimbo Case to be seen as a group of propositions that contributes to show the principles of the Catholic Doctrine about the social responsibilities of the enterprise.

From a familiar baker’s to a multinational bread maker

According to the founders’ willing, Bimbo was born with the clear conviction not to be a simple transaction but to an enterprise, conceived as an authentic community of persons and an institution of service.

In this system, it is explained the origin of the company, its evolution and its development that explain the success from the economical point of view. Besides, it is analyzed the origin of its mission and its consolidation in a long period of time, relating it to the definition of the enterprise that supports the Social Doctrine of the Church.

The Corporative Philosophy: the pillar of the success

The factors that supported the success of the enterprise are analyzed: the impression of its founders, its corporative philosophy, and the real dignity of work and of the workers, the definition of a corporative mission as the purpose of the enterprise, to create sources of employment with sense for the persons.

The management philosophy of Bimbo is based on five universal principles that are adjusted perfectly to the permanent principles of the Social Doctrine of the Church:

a- People’s dignity
b- Subsidiary
c- Solidarity
d- Welfare
e- Authority

At the same time, from these principles of business philosophy, the corporative values of the Group are derived into: passion, rentability, creativity, quality, trustness, teamwork, and person.
The business philosophy of the group involves, from the beginning, an integral vision of enterprise with social and economic finalities towards inside and outside from the company that has been kept materialized in the company with the following graphic:

<table>
<thead>
<tr>
<th>THE ENTERPRISE HAS TWO PURPOSES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECONOMIC</strong></td>
<td><strong>SOCIAL</strong></td>
</tr>
<tr>
<td>To satisfy the needs of the society, supplying goods or quality services.</td>
<td>To contribute to the improvement and development of the society, to its good social being.</td>
</tr>
<tr>
<td>To generate a great utility with which all the participants of the enterprise may obtain all the necessary things for their welfare and progress: salaries, services, security and profits.</td>
<td>To contribute to the improvement and to the development of its integrants, to its good social being.</td>
</tr>
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Application of the Principles of the Social Doctrine

The principles of Bimbo Group are analyzed by the light of the support of the Social Doctrine, illustrating its application with some of the management and human resources policies of the company.

a) **The dignity of the person**: the reaches of an enterprise as community of persons, understood as motor of the personal and social development, with policies addressed to its own personnel, are studied. Therefore, the respect for the dignity of the people goes through the doors of the own enterprise and Bimbo Group proposes itself to promote it among its suppliers, clients and friends.

b) **The participation**: different aspects of the participation of the staff in the management of the enterprise, in solving problems of their work, in the distribution of its utilities and the selling of shares among all the collaborators, are studied. That is to say, it is looked for the participation of the personnel in the benefits and in the capital.

c) **The subsidiary**: it is shown how, clearly, the same enterprise identifies the subsidiary as the principal motor for the development of the persons. The subsidiary is an ethical frame for the autonomy, it encourages the initiative, and the enterprising spirit and it promotes the personal responsibility.

d) **The solidarity**: it is analyzed how it is fulfilled, in Bimbo, the compromise of worrying for the welfare of everybody and of each of them, starting by its own personnel, their families and the community.

e) **The welfare**: it is demonstrated how, in Bimbo, it is promoted the research of the
welfare which is a factor of unity that permits the persons agglutinate for a coordinated and cooperative common action.

f) **The authority:** it is studied the relationship between the welfare and the necessary leadership to obtain harmonization of the multiple individual desires with the research of a welfare. It is described the role that the founders have had and the responsibility that they have transmitted to the directive team.

**Conclusions**

The success of Bimbo Group could be measured well through the quantities of sales, quality of its products or internationalization of its business. However, the impact on its people, on its environment, and on the countries where it works, is impossible to be quantified. Just to be a totally human enterprise that bets on the ethical values, its reaches are supported in each person that make it be possible, and for that reason, it is impossible to have an idea of what it can be done.

All through 28 pages, it has been intended to show that Bingo Group joins people that are very involved with their work and with the philosophy of the enterprise that they act with motivations far away from the pure economic aspect that they bet on the team work, on the innovation and on the log-term results. It can be proved as the social responsibility does not derive from a social contract but it is based on the respect to the human person and in the solidarity of the enterprise, in the harmonic promotion and it activates the welfare by the light of the teaching of the Social Doctrine of the Church.

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L’esperienza della Coldiretti tra pensiero sociale cristiano e valore sociale dell’impresa agricola

Marco Foschini


Nell’immediato dopoguerra, la sua iniziativa si caratterizzò in una duplice direzione: (i) la promozione dell’impresa famigliare diretto coltivatrice sul piano professionale, (ii) il perseguimento delle garanzie dello “stato sociale” (previdenza, assistenza sanitaria, formazione, ecc..) e la partecipazione dei coltivatori diretti alla nascente vita democratica del Paese, sul piano socio-politico; due obiettivi uniti dalla visione della sinergia positiva tra proprietà e imprenditorialità “diffuse”, da una parte, costruzione della democrazia e sviluppo, dall’altra parte.

Per l’efficacia di questo nuovo protagonismo rurale, centrato sulla figura del coltivatore diretto e della sua impresa familiare, c’era bisogno dell’intervento della politica. D’altronde, nei Paesi industrializzati sulle due sponde dell’Atlantico, le analisi sulla “crisi agraria” iniziate dagli economisti agrari statunitensi negli anni ’30 e continue negli anni ’40 e ’50, avevano portato alla convinzione che “i problemi dell’agricoltura non potessero trovare rimedi nella spontanea capacità regolativa del mercato, da cui l’intervento dello Stato volto a ristabilire condizioni paritarie per l’agricoltura acquisiva piena legittimità, sia sul fronte dell’equità che su quello dell’efficienza”.

In quegli anni si consolidarono un “clima politico istituzionale” fiducioso nella capacità correttiva dell’azione pubblica nei confronti dei fallimenti del mercato, una visione settoriale della politica agraria e un approccio che considerava legittimo il protezionismo commerciale associato al sostegno interno; infine, c’era la convinzione che l’impresa agricola a carattere familiare meritasse, anche per ragioni socio-culturali, misure di sostegno.

Gli obiettivi indicati nelle premesse delle politiche agricole impostate in quel periodo erano: i) la massimizzazione della produzione in chiave monofunzionale, ii) l’innalzamento e la stabilizzazione dei redditi agricoli, ricercando la parità con quelli extragricoli, iii) il sostegno privilegiato all’impresa familiare.

Nella sostanza, il riconoscimento del valore socio-economico e culturale dell’impresa agricola familiare e dell’agricoltura, intesa come insieme di dette imprese, venne assunto dalla politica mescolando diverse cose, come: la forza di un retroterra condiviso da moltissimi e di una identità radicata su una tradizione edulcorata ma profonda, il favore di un elettorato che in un contesto democratico pesava, la promessa di un ruolo adeguato e di un’emancipazione economica, conseguenti alla modernizzazione del settore.

Nonostante questo clima diffuso nelle due sponde dell’Atlantico, nell’Italia dell’immediato dopoguerra l’avvio di politiche agricole che coniugavano obiettivi popolari e democratici, con la modernizzazione del settore in chiave produttivistica, fu contrastatissimo, dal momento che tali politiche intaccavano i rapporti di produzione e di proprietà pre-esistenti; a titolo d’esempio, basta pensare ai logoranti iter parlamentari della Riforma fondiaria e dei Patti agrari.

Dopodiché, si può dire che limiti e conflitti della situazione agricola italiana furono assorbiti dalla Politica agricola comunitaria (Pac) della Comunità economica europea (Cee): una politica voluta già dal Trattato di Roma del 1957, per rendere possibile l’integrazione economica fra i sei Paesi...
fondatori, incrementare la produttività dell’agricoltura sviluppendo il progresso tecnico, assicurare un tenore di vita equo alla popolazione agricola, stabilizzare i mercati e garantire gli approvvigionamenti alimentari a prezzi ragionevoli per i consumatori; come recita l’Articolo 33 della Versione Consolidata del Trattato che istituisce la Comunità Europea.

La Pac decollò negli anni ’60, strutturandosi con misure chiaramente protezionistiche che favorirono il consenso interno, dal momento che l’alto livello del sostegno ai prezzi dei prodotti agricoli ne consentì l’accettazione da parte delle Organizzazioni professionali del settore; non scordiamoci che ancora nel 1960, tali organizzazioni rappresentavano circa il 20% della popolazione attiva della Cee e il 29% di quella italiana.

La modernizzazione dell’agricoltura attraverso la Pac, avviò, in maniera decisa, l’inserimento dell’agricoltura nel generale processo di industrializzazione dei sistemi economici nazionali che componevano la Comunità economica europea.

Anche se il valore sociale dell’impresa agricola familiare era politicamente affermato nelle intenzioni della leggi, era ribadito nella cultura delle istituzioni e degli organismi creati per l’amministrazione delle politiche agricole; la sua concreta declinazione economica si rivelò molto difficile, tanto che diversi studiosi parlano di un obiettivo strumentale volto ad aggregare consenso sul mercato politico.

La stessa Coldiretti, che negli anni ’50 e ’60 registrò importanti successi nel far approvare misure legislative per il “welfare” del mondo agricolo, si scontrò con diversi “divieti di accesso” quando, verso la fine degli anni ’70 e nei primi anni ’80, provò a mettere mano all’Organizzazione Economica dei Produttori Agricoli (Oepa) per rilanciarne il ruolo all’interno delle filiere agroalimentari; quei territori erano già ampiamente presidiati da interessi industriali e commerciali, più influenti all’interno delle coalizioni di forze che governavano il Paese.

In un settore ghettizzato da generose prebende politiche (il ghetto dorato), il compromesso della prima ora tra la promessa di valorizzazione dell’impresa agricola familiare e la modernizzazione produttivistica dell’agricoltura, stava lasciando il campo alle esigenze sempre più egemoni dell’industria di trasformazione agroalimentare. Attraverso la riorganizzazione delle misure delle Organizzazioni comuni di mercato (Ocm), la Pac diventava sempre una politica di integrazione subordinata della fase agricola in una filiera agroalimentare dominata da una crescente industria di trasformazione; mentre, alla porta si affacciava la distribuzione, in procinto di diventare Grande distribuzione organizzata (Gdo).

Il valore socio economico dell’impresa agricola, piuttosto che rinnovarsi sulla scia di un fertile rapporto tra tradizione e modernità, iniziava un processo di “eclissamento”, contemporaneamente la Coldiretti si avviava sul piano inclinato di una pericolosa spirale. Le difficoltà nell’affermazione di un ruolo economico delle imprese agricole familiari, finivano per addossare alla rappresentanza politica speranze e pretese sempre maggiori; allo stesso tempo, ritardi nella cultura economica dei soci e dei dirigenti dell’organizzazione, a cui non erano estranee certe semplificazioni interpretative del mondo cattolico, contribuivano anch’esse a far pensare alla rappresentanza politica (la presenza in Parlamento), come alla chiave di volta di ogni situazione.

Non dobbiamo dimenticare che, a fronte di queste dinamiche interne al mondo agroalimentare e all’associazionismo dei produttori agricoli, c’era una classe politica che dagli anni ’80 smarriva sempre più la dimensione progettuale, infine, veniva svuotata della capacità di incidere su molte variabili macroeconomiche, sia dall’integrazione europea che dai processi di globalizzazione.
dell’economia mondiale; ma, forse proprio per queste ragioni, rifluiva in un iper attivismo delle sue dimensioni più corporative e autoreferenziali.

Nel frattempo, già verso la fine degli anni ’70 e l’inizio degli anni ’80, la Pac aveva raggiunto i suoi obiettivi produttivi di tipo quantitativo: l’Europa, da deficitaria in molte produzioni agricole, era diventata eccedentaria e, da allora, l’esportazione sovvenzionata delle sue eccedenze diventò un fattore di conflittualità internazionale; mentre si accentuò quell’evoluzione delle Ocm che subordinava la fase agricola alla trasformazione dell’industria alimentare, dal momento che il gioco si faceva più pesante con la competizione fra colossi dell’agroalimentare sul mercato mondiale.

Negli anni ’80 l’agricoltura entrò nelle trattative GATT (General Agreement On Tariffs and Trade) dell’Uruguay Round (1986) e si avviò, con la Riforma Mac Sharry del 1992, quel processo di “riforma continua” della Pac che è tutt’ora in corso; ma questi sono anche gli anni in cui, secondo la Coldiretti, si esaurirono per molti in Europa e nel mondo, le potenzialità positive del modello di industrializzazione produttivistica dell’attività agricola, in particolare alla luce delle condizioni create dalla cosiddetta “globalizzazione”.

Il gigantismo delle realtà più avanzate di quel modello era, ed è tuttora, preoccupante, poiché si caratterizzava come una sorta di criterio selettivo darwiniano in grado di tagliare fuori molte realtà agricole, man mano che esse si sarebbero integrate sulla scia della liberalizzazione commerciale.

Attenendoci solo alla dimensione produttiva agricola, secondo dati del 2000, negli USA, su una Superficie Agricola Utilizzata (SAU) di 477 milioni di ettari, c’erano circa 2 milioni di aziende agricole, con solo 157.000 “imprese agricole commerciali” responsabili del 72% del totale della produzione; allo stesso tempo, in Italia, su 15 milioni di ettari di SAU, c’erano poco meno di 1 milione di imprese agricole: sono dati che devono far riflettere, quando cadono le barriere e i sistemi si confrontano, interagiscono.

Questi dati sono il risultato delle trasformazioni indotte dalla sempre maggiore concentrazione internazionale degli attori delle filiere agroalimentari, filiere ridisegnate, ultimamente, dalla comparsa della Grande Distribuzione Organizzata (GDO): essi evidenziano, nonostante la diversità delle situazioni, la tendenza allo svuotamento del ruolo socio-economico dell’imprenditore agricolo, alla scomparsa delle imprese agricole e dei loro prodotti.

Si tratta di un risultato presentato nei primi anni ’90 come il costo inevitabile del progresso, ma scavando dietro l’orizzonte di quel progresso si cominciò a capire che non era esente da contraddizioni e i costi erano molti, denunciati dalla crescente conoscenza dell’impatto ambientale negativo dei metodi agricoli intensivi, dalla conoscenza delle cause degli scandali alimentari e delle loro ricadute sulla salute pubblica, dei costosi paradossi di un commercio agroalimentare internazionale in cui un prodotto viene importato ed esportato dallo stesso Paese, verso partners commerciali tra loro distanti. Ancora, dalla conoscenza degli effetti di una trasformazione dei sistemi agroalimentari che crea grandi ricchezze, ma non è inclusiva (è a macchia di leopardo) e, viceversa, concentra il potere svuotando le possibilità di democrazia economica, mostra l’abbondanza (anche lo spreco di consumistica memoria), ma non da una spinta altrettanto eclatante al problema della sicurezza alimentare nel mondo; infine – last but not least almeno per la Coldiretti e crediamo per molti consumatori - porta ad un’omogeneizzazione dei sistemi e dei prodotti, ad una mortificazione delle tradizioni alimentari e del rapporto cittadino-campagna.

Di fronte a questi segnali, la Coldiretti avviò un lavoro di riflessione, di rifondazione del suo modo d’essere e della sua strategia che, per quanto riguarda l’immagine dell’impresa agricola a
conduzione diretta, mise in luce la necessità di uscire dall’autoreferenzialità dell’associazionismo agricolo, per rimotivare il rapporto tra imprenditori agricoli, consumatori e cittadini.

Le vecchie parole d’ordine della partecipazione politico-sindacale e dell’inclusione economica realizzata grazie alla modernizzazione dell’agricoltura, la convinzione di avere un consenso sul ruolo socio economico e produttivo dell’impresa agricola radicato nell’opinione pubblica, erano tutti presupposti della cultura politica dell’organizzazione, pensati e vissuti – almeno inizialmente; quando non erano ritualmente ripetuti - come esempi concreti di mediazione storica dei principi della scuola cristiano-sociale; adesso, quei presupposti non erano più sufficienti, non erano più scontati e non contribuivano ad un’adeguata interpretazione della realtà.

Nella società stava crescendo una responsabilità ambientale e una consapevolezza dei consumatori su tutto ciò che è a monte e a valle del consumo, rispetto alle quali andavano ripensati e rigenerati, ruolo e funzione dell’imprenditore e della impresa agricola.

L’attività più emblematica della Coldiretti nel ricercare un nuovo rapporto tra impresa agricola e società, fu una serie di iniziative che culminarono con la raccolta delle firme per il “Patto con il consumatore” nelle piazze delle città italiane; era il 3 di dicembre del 2000.

Un Patto che si basa su “La carta dei doveri e dei diritti dell’impresa agricola”: una carta in cui gli imprenditori agricoli si impegnano ad offrire prodotti che danno continuità alle nostre tradizioni alimentari, con sistemi di certificazione volontaria, assicurando il rispetto dei disciplinari delle produzioni biologiche e a denominazione di origine controllata, delle buone pratiche di lavorazione, utilizzando sementi e mangimi esenti da organismi geneticamente modificati (ogm), prestando attenzione alla salute umana, al benessere degli animali e agli equilibri ambientali.

Nel Patto, a loro volta gli imprenditori agricoli, chiedono il sostegno dei consumatori per la promozione di politiche di rinnovamento dell’impresa agricola, nell’ambito del riconoscimento del ruolo degli imprenditori agricoli nella tutela dell’ambiente e nell’esprimere la creatività delle risorse endogene del territorio rurale, della sua storia.

Da allora, coerentemente, si è avviata una serie crescente di iniziative a livello nazionale, regionale e locale:

- dalla “Legge di orientamento agricolo” del 2001, che ampliò funzioni e strumenti dell’impresa agricola per metterla in grado di rispondere alle esigenze ambientali del territorio in cui è inserita, alla domanda di tipicità delle produzioni agricole, di vendita in azienda e di turismo rurale;
- al progetto di legge di iniziativa popolare per “L’indicazione obbligatoria nell’etichettatura dell’origine dei prodotti alimentari”, promosso insieme ad associazioni dei consumatori e ambientalistiche nel 2003;
- alle indicazioni utili a proposte di leggi regionali per l’orientamento e il consumo dei prodotti agricoli regionali, nonché per la produzione e l’impiego di biomasse nella produzione di biocarburanti agricoli;
- oltre a questi filoni generali, ci sono le iniziative più mirate e vicine al territorio, alla realtà in cui operano le imprese agricole, volte a coniugare le potenzialità di un rigenerato valore sociale delle attività delle imprese agricole (e le conseguenti responsabilità) con le questioni della sicurezza alimentare (che da noi è soprattutto un problema di rintracciabilità e qualità), a promuovere la diversificazione produttiva (agriturismo, trasformazione in azienda e vendita diretta, manutenzione del territorio, fattorie didattiche, ecc...), lo sviluppo rurale e le filiere agroalimentari della qualità e della tipicità; infine, la formazione e l’adozione di nuovi strumenti culturali, tra cui il “bilancio sociale”. Questi sono aspetti su cui parlerò, sinteticamente, nella relazione finale, cercando di inquadrare potenzialità e problemi...
nell’uso di questi strumenti da parte di realtà che, fino ad oggi, ne erano state al margine, e che, non di rado, sono caratterizzate da piccole dimensioni aziendali, da una difficile valutazione del singolo impatto sulle variabili socio economiche, ambientali, ecc.., del sistema territoriale in cui sono inserite.

In ogni caso, questo è un cammino che sta rinnovando profondamente la Coldiretti e contribuisce a rigenerare il ruolo delle imprese agricole, l’immagine e il rapporto che esse hanno con la società e l’ambiente.

Da una parte la Coldiretti è uscita dal ghetto corporativo (una volta era dorato, ora è in via di smantellamento, ma lentamente per gli interessi più forti) in cui le vecchie politiche agricole avevano inquadrato l’attività agricola, diventando una “forza sociale” che punta alla crescita e all’autonomia propria e dell’intera “società civile”, alla difesa del valore della democrazia economica nella direzione di un”economia civile” con al centro il dialogo/confronto tra produttori e consumatori (cittadini).

Indubbiamente, quello della Coldiretti è un cammino, che proprio nei momenti di discontinuità, ha saputo attingere con una rinnovata creatività al rapporto con i principi della scuola cristiano-sociale; in particolare, affiancando alla centralità della persona e della partecipazione, le riflessioni sul federalismo solidale, l’orizzonte tracciato dal principio della sussidiarietà e – lust but not least- il valore della responsabilità sociale dell’impresa agricola.

Per quanto riguarda gli imprenditori agricoli e le loro imprese, c’è un’espressione del Presidente della Coldiretti, Paolo Bedoni, che dice molto sinteticamente qual è il nuovo indirizzo: “abbiamo capito che dobbiamo mettere la nostra faccia in quello che facciamo”.

Questa, a grandissime linee, è la ricetta contro l’anonimato letale verso cui vanno certe filiere lunghe, questo è lo spirito con cui l’imprenditore agricolo sta nella società e crea il suo ruolo dentro la società, lavorando a cavallo tra tradizione e post modernità; una sfida in cui l’orizzonte della responsabilità sociale dell’impresa, oltre che un compito con i relativi oneri che comporta, è una risorsa determinante per preparare il presente guardando al futuro.

Nella nostra esperienza, la riflessione dell’associazione sul ruolo dell’impresa agricola, sul suo valore e sulla sua responsabilità sociale, con la valenza politica (nel senso alto di progetto per la costruzione della città dell’uomo) che essa assume, cammina di pari passo con l’impegno concreto e l’assunzione di responsabilità da parte delle imprese agricole.

Tra politica dell’associazione e ruolo nel mercato delle imprese agricole, c’è una sinergia positiva e creativa nell’individuare cornice e confini di quella responsabilità, con intuizioni e realizzazioni che vanno e vengono da entrambi i poli. Spesso, singole imprese hanno anticipato l’organizzazione dando risposte nella produzione di beni e servizi che recepivano le nuove istanze della domanda dei cittadini, dei bisogni del territorio; oggi l’organizzazione lavora per valorizzare nel senso pieno del termine (cultura, formazione, leggi, costruzioni di reti, ecc..) quelle esperienze.

Siamo passati da un valore sociale dell’impresa agricola completamente fatto proprio dalla politica e praticamente sepoltò nell’ambito della società politica, ad un nuovo valore sociale dell’impresa agricola che si qualifica nella sinergia tra progettualità politica (profondamente diversa, nel tempo dell’autonomia del sociale e della concertazione) della Coldiretti e realtà operativa delle imprese agricole. Anche se non è da molto che frequentiamo i terreni della responsabilità sociale dell’impresa, ci chiediamo – per sollecitare il confronto e approfondire la nostra posizione - , che cosa ne è della responsabilità sociale dell’impresa quando cresce di fronte al vuoto (forse cercando di riempirlo ?) di una progettualità politica complessiva ?
THE CULTURAL BASIS OF THE GOOD COMPANY  
SOCIAL RESPONSIBILITY FROM A FILIPINO CHRISTIAN  
PERSPECTIVE  
Vicente T. Villegas

The main point of this essay is the proposition that corporate social responsibility (CSR) and its first obligation are deeply rooted in the purpose of business itself as defined by Catholic social thought (CST) and empirically illustrated by a Filipino model of “The Good Company.” In general, CSR practices in the Philippines are aimed primarily at poverty alleviation and reduction because of the very high incidence of poverty in the country. Despite the best efforts of dedicated CSR practitioners, however, poverty seems insurmountable.

More than alleviated or reduced, poverty must be eradicated and business has a central role to play in the eradication process that no other segment of society can perform—the role of “The Good Company” that is inscribed in the purpose of business itself. Indeed, to understand the purpose of business is to understand corporate social responsibility.

The Purpose of Business: As is already quite obvious, the principal value underpinning this study is the purpose of business according to CST, as specifically articulated by Pope John Paul II in Centesimus Annus: “In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole society.”

From this principal statement follows a pair of mutually reinforcing twin propositions. The first is that CSR, as a function of business, is essentially rooted in the purpose of business itself, thus immediately connecting CSR to CST. The second proposition is that the first obligation of CSR is to the employees and workers in the firm.

The Heart of CSR: If it were not for the probably almost universal belief that the purpose of business is simply to make a profit, maybe there would be no compelling reason to argue on behalf of CSR and CST. Even so, few would have trouble accepting the idea that business must also render important service to society. But what about the employees and workers in the firm? They often do not get top billing. Frequently they are praised and their value extolled in the last paragraph of the corporate annual report.

In fact, business has a nobler human purpose although admittedly sustained by the basic profitability of the firm. Quite subconsciously in most cases, business executives actually “feel and live” the purpose of business from day to day. It is that sense of satisfaction and accomplishment at the end of each day that they derive from their work, even in those days when they earn no profit and actually even suffer losses. The more they work, the more satisfied and accomplished they feel and the more human they become.

Everybody else in the firm, from middle managers all the way down to the production line, sales units, etc., have the same very basic need to be satisfied and accomplished and to become more human, although obviously in different ways and different degrees. As far back as 1957 Pope
Pius XII asked the rhetorical question, how can a manager or entrepreneur deny to his subordinates that which he values so much for himself? *His duty to share that which he values most* is the heart of corporate social responsibility and at the same time its *first obligation*. Just as charity begins at home, CSR must look inward before it looks outward.

**Philippine Historical, Cultural and Economic Perspectives:** After four centuries of western colonization by Spain and the United States, the combination of traditional Filipino culture and the people’s acquired Catholic faith tends to be portrayed in recent years as a national weakness by both Filipino and foreign critics. For example, when the Philippines is compared to the tiger economies of its Confucian neighbors, indigenous Filipino values and the Catholic religion are not uncommonly cited as at least part of the explanation for the country’s lagging performance. Indeed, there is much to be improved in the Philippine economic, social and political order.

Elitist and oligarchic rule in business and government has spawned macro economic policies favoring the wealthy to the detriment of the majority of the people. Consequently, the economic sectors vital to countryside progress and the employment of the mainly poor population are underdeveloped. The state of affairs seems like a testimony to the absence of CSR. And yet CSR is alive and flourishing. Responsible businesses are swimming against the current, and one particular Filipino model of “The Good Company” is cited here—a model of indigenous Filipino values and the Catholic faith that “disproves the rule.”

**United Laboratories, Inc.:** United Laboratories, Inc. started out as a small corner drugstore in post World War II downtown Manila. It grew to become the largest pharmaceutical company in the Philippines with about a 20% market share, double its closest multinational competitor. It has more than 300 over-the-counter and ethical brands, and now operates in eleven countries in the Asian region. Importantly, Unilab did not build its business by imitating multinational firms.

Since the Philippines is too small a market to support a locally based, full-blown, basic pharmaceutical research organization, Unilab built its business through an ingenuous combination of high quality, “branded” generic products manufactured to international standards, and a highly developed sense of human relationships with and service to its employees (first and foremost), the mainly poor population of the country, physicians, other medical professionals, business partners, customers, suppliers and other stakeholders.

Obviously, a large and dominant market leader with highly valued and motivated employees cannot exist in competition with giant global corporations without employee compensation and benefits that are among the best in the industry and the community. Unilab’s schedule of compensation and benefits covers the employee and his or her family’s needs “from womb to tomb.” Instead of labor unions, the employees are represented by the Employees’ Council that not only looks after the welfare of employees but also through a select group of members sits in the confidential quarterly business reviews of the management.

Unilab’s management philosophy, as introduced and “lived” by JY Campos, is founded on the indigenous and truly Filipino value of *bayanihan*. The root word of *bayanihan* is *bayani*, which means hero. Thus, *bayanihan* is translated as heroic cooperation or heroic assistance. In Unilab’s management philosophy, *bayanihan* is not a stand-alone value. It is supported by
pakikisama (camaraderie), hiyâ (shame), and utang na loób (being beholden or, more literally, a debt of gratitude). As to their significance, camaraderie is probably self-explanatory while shame refers to the negative social consequences of not cooperating, and being beholden or debt of gratitude pertains to the necessity of acknowledging and reciprocating a past favor.

Importantly, the Unilab people by their religious faith have significantly enriched their indigenous Filipino values. JY Campos was a religious man who believed in the power of his faith and indigenous Filipino values as the primary means of inspiring people to great heights. His partners and the succession of professional managers they hired are of the same mold. Their faith-enriched indigenous Filipino values permeate the entire organization and instinctively link the firm’s CSR to CST.

While Unilab management policy regards its employees and workers as its CSR’s first obligation and beneficiary, its concern for people expectedly does not end there. Unilab’s product and marketing strategy, supported by a socialized pricing policy, specifically addresses the challenging therapeutic and nutritional needs of the country’s poor population. Furthermore, Unilab renders “unconditional” service to the medical profession and sponsors continuing medical education for all physicians and other medical professionals in the country. In times of disaster and national emergencies, Unilab rises to the occasion.

Unilab’s early decision to serve the country’s mainly poor (and young) population paradoxically became the foundation of its sustained profitability through dominant market leadership. Since the firm was not saddled by basic pharmaceutical research costs like the multinationals, its branded generic products became virtual cash cows and gave its various divisions almost incredible leadership shares of the pain relief, cough-and-cold, and vitamin segments of the market. Nevertheless, the firm pursued profitability with restraint as, for example, when it refused to lay off employees during poor business cycles and when it established The United Bayanihan Foundation to address the continuing needs of retired employees.

**Macro Implications of the Unilab Model:** From a broader perspective, Unilab is not the only advocate and practitioner of the indigenous bayanihan value that “disproves the rule.” Gawad Kalinga (which means to give care), the high profile field organization of Couples for Christ (an international lay religious movement founded in the Philippines in 1981 and exported to 155 countries to date) is explicitly driven by the same indigenous value. Gawad Kalinga builds thousands of homes and communities for the very poor in partnership with hundreds of business firms, government agencies, universities and individual supporters in the Philippines and abroad.

Evidently, of course, Unilab and Gawad Kalinga share two other values besides bayanihan—religious faith and a deeply held concern for the poor. The role of religious faith in Unilab and Gawad Kalinga seems consistent with Philip Wogaman’s contention that human reason, philosophy and morality are incomplete foundations for a just society. The whole of reality needs religious faith. In turn this leads to the conclusion that, for authentic CSR to flourish in the Philippine environment, a revolution of the heart (or individual inner conversion) must lead the effort to reform the economic and social order.
In this context, Unilab has built a highly successful business with a “preferential option for the poor” through socialized pricing and a product and marketing strategy specially geared to the needs of the indigent. For its part, Gawad Kalinga is doing an awesome job of harnessing and consolidating major corporate resources, as well as those of many others, to restore the dignity of people in the lowest rung of the poverty ladder. They have two different approaches that both work to improve the lives of the unfortunate. Both are needed, and more are needed “to lift the Philippines out of the Third World.”

**The Prime Target of Philippine CSR:** The enormity of poverty in the Philippines is the powerful magnet that draws practitioners of social responsibility. The Philippines is not lacking in generous persons or individual business firms, some of whom have their own private CSR programs, but the enormity of poverty in the country encourages, if not necessitates, a pooling of resources. The biggest, well-funded, group corporate practice antedating *Gawad Kalinga* by twenty-five years is the Philippine Business for Social Progress (PBSP).

In addition to PBSP, there are other CSR groups such as the League of Corporate Foundations (LCF) and the Bishops-Businessmen’s Conference for Human Development (BBC). There is, in fact, a great deal of overlap in CSR practice among those highly motivated to do it. Depending on various working definitions of poor, there are probably more than 40 million poor, and it is highly unlikely that the country’s combined CSR resources can reach more than a third of them.

And this is why Peter Henriot makes sense when he says it is good to alleviate and reduce poverty, but it is better to eradicate it. By and large, the current thrust of CSR activity in the Philippines can alleviate and reduce poverty, but will not eradicate it. A properly functioning society does not mean everybody is relaxing and receiving free food, clothing, shelter and education. It means every able bodied person is productively and gainfully working, and contributing to the wellbeing of the whole society.

Therefore, as the main provider of livelihood and the most efficient creator and distributor of goods, services and wealth, the business sector plays the most important role in poverty eradication that no other segment of society can perform. The role necessitates a different brand of CSR from that currently mainly aimed at poverty alleviation and reduction. This brings up the remarkable evolution of The League of Corporate Foundations (LCF). LCF is an association of corporate foundations established for the purpose of implementing, all or in part, the CSR programs of their respective “mother” companies.

At the outset, the league served as an exchange and clearing house of “best CSR practices” in the areas of arts and culture, education, enterprise development, the environment, health, and youth development. Over the years, however, the members began to question and challenge the traditional approach of corporate philanthropy and to consider a paradigm shift on how development ought to be pursued and the way business is conducted. Specifically, LCF now maintains that, instead of being on the “outside,” CSR must be integrated into the core strategy of the business, and doing good ought to be elevated beyond the level of philanthropy.

The importance of LCF’s evolution—from an almost purely philanthropic association to advocate of “business activism” within its own sphere of influence—lies in its potential
implication on what is expected of business in the task of eradicating poverty. In discussing the purpose of business, LCF now specifically refers to Pope John Paul II’s *Centesimus Annus*. It seems CST has also found its way into LCF’s CSR. It does seem that religious faith plays a welcome role in the whole of reality and that a revolution of the heart or inner conversion must somehow be linked to the urge to reform the economic and social order.

This is certainly the way the Bishops-Businessmen’s Conference for Human Development (BBC) would like to have it. BBC’s thrust is advocacy of social justice and spiritual formation. It has recently launched a drive to promote widespread spirituality in the workplace by sponsoring and endorsing to business firms a “Workbook” entitled *ISQ: Living One’s Values in the Workplace*. *ISQ* stands for Institutional Spirituality Quotient, which the workbook is designed to spread and measure. It brings CST directly into the workplace.

**A Job for Professionals:** Given the particular circumstances of the Philippines, there is no question that the most vital issue that business and CSR must confront from an economic, social and spiritual standpoint is the poverty of the people. The Management Association of the Philippines (MAP) has taken on this challenge. MAP is an association of top professional managers from major local and multinational firms for the purpose of promoting management excellence. Although it has a CSR Committee, ironically MAP is not a CSR organization.

MAP sees that business’ major responsibility in the task of poverty eradication is to generate and provide employment and other means of livelihood to poor people through proactive and aggressive business initiatives among its members in particular and the entire business community in general. In effect, even though MAP members and MAP itself are CSR practitioners, the association now superimposes systematic work creation over CSR practices simply aimed at poverty alleviation and reduction.

As Andrew V. Abela argued in his analysis of *Centesimus Annus*, the generation of work for people is not just a by-product of the logistical needs of the business but actually a key reason why the business exists in the first place. “If we agree with this aspect of the purpose of the firm, then we would have to hold that every investment decision would have to consider what increase in employment could result from it [. . .].”

The gravity of poverty cannot be left solely in the hands of market forces and/or the goodwill of CSR practitioners. The leading role assumed by MAP in stimulating job creation, supported by BBC’s spreading of spirituality in the workplace, might just make a crucial difference. But neither can business nor MAP claim to have full control over systematic work creation. The country’s macro economic policies likewise need to change for the common good. This is why it makes sense for a broadly based alliance like MAP to lead the movement. Its mission inevitably includes pressing the case for major revisions in the country’s macro economic policies.

In superimposing job creation over “charitable” CSR, nobody has suggested that the latter be discontinued or even de-emphasized. There will always be a need for charity, especially in the struggle against poverty. But the best kind of economic, social and spiritual liberation for the vast majority still comes from a good job or independent means of livelihood that enables a person and his family to develop and become *more human*. It is the corporate social
responsibility of “The Good Company” to create and sustain such jobs and means of livelihood, consistent with the purpose of business according to Catholic social thought.
Malden Mills: When Being a Good Company Isn’t Good Enough
Al Gini and Alexei M. Marcoux

I
In American business literature, the concept of corporate social responsibility (CSR) was enunciated, if not completely defined, at the height of the Industrial Revolution by no less major a player than US Steel founder Andrew Carnegie. Believing that “to whom much had been given, much is expected,” Carnegie was convinced that successful businesses were duty-bound to be charitable to those in need, and to be diligent stewards and guardians of the wealth and property entrusted to them. Since this initial parochial and paternalistic description, the exact nature of CSR continues to change, be debated, and be redefined as issues in business become increasingly complex and sophisticated.

There is, of course, a core of theorists and practitioners who claim that while business ought to try to behave ethically, the primary business of business is to maximize owner value. As one pundit puts it:

The modern firm solves one (but only one) of the major problems of humankind—the creation of wealth. That wealth then allows individuals in their various roles the opportunity to protect values they care about.

1) Strong, sustainable economic performance.
2) Rigorous compliance with financial and legal rules.
3) Ethical actions beyond formal requirements which reflect a corporation’s sense of integrity and appropriate concern for issues beyond self and the needs of self.

II
The postulates of CSR express in secular form many of the economic implications and conclusions of Catholic social thought (CST). Catholic thinkers joined the late 19th and 20th Century debate amongst Marxism, Socialism, and Capitalism by focusing on an important question: What are the rights and obligations of property (capital) versus labor, and which of them has priority over the other? Or, more contemporaneously: What expectations and rights do workers carry with them into the workplace, and beyond the rights and need of the place of business to earn a profit, what other obligations does the business/employer have to the worker? Although the ethical foundations of the rights of the worker has a long and stellar past—e.g., Confucius (“The Principle of Reciprocity”), Rabbi Hillel (“What is hurtful to you, do not do to another”), Immanuel Kant (“The Categorical Imperative”)—it was Leo VIII’s Rerum Novarum and the subsequent social writings and encyclicals of his successors that gave workers theoretical and practical, philosophical and theological grounds on which to demand and expect “good work,” “meaningful work,” and “social responsibility.” Rerum Novarum and its progeny argue conclusively that the primary ethical duty of the state, the Church, and all employers is “to promote the dignity of work” and to subordinate all work to man, “the proper subject of work,” and not simply to “economic advantage(s).”

III
Until recently under the leadership of Aaron Feuerstein, Malden Mills is taken by many CSR proponents to be the archetype of the socially responsible firm. Viewed from the joint perspective of CSR and CST, it is hard to find a more exemplary firm than Malden Mills. On December 11, 1995 three of eight factory buildings in Lawrence, Massachusetts burned to the ground, displacing thousands of workers and seriously endangering the future of the family business founded in 1906. Feuerstein, the then-majority shareholder, president, and CEO of closely held Malden Mills, had a number of options available to him.
He could have pocketed the insurance money, closed the business, and walked away. He could have used the insurance proceeds to move operations to some other state or country with lower labor costs. Or, he could use the money to hang on to his workforce, rebuild the factories, and keep Malden Mills where it was.

For Feuerstein, the decision was a clear one. An observant Jew motivated by his religious convictions, a strong sense of personal and family responsibility, and confidence in his own ability to handle adversities, Feuerstein couldn’t and wouldn’t walk away from this problem. Corporate responsibility, he said, does mean you have to take care of your stockholders. But, he went on, it also means you have responsibility to your workers and to your community. Closing down—giving up—was unthinkable. It meant putting 3000 people out of work and delivering a deathblow to the city of Lawrence.

In choosing to do “the right thing for the right reason,” Aaron Feuerstein passed the CSR/CST test with flying colors. But, unfortunately, as things turned out, he failed the test in the marketplace. The very virtues for which Malden Mills is lauded among CSR proponents are recognized also to be significant causes of Malden Mills’ recent bankruptcy (which found former creditor GE Capital its largest shareholder) and of Feuerstein’s fall from leadership (in favor of new President and CEO Michael Spillane). In short, there is a strong argument to be made that passing the CSR test meant, for Malden Mills, failing the test of the marketplace.

IV

Ought implies can means that if one ought to perform an action A, then it must be the case that one can perform A. Its negative corollary is that if one cannot perform A, then it is not the case that one ought to perform A.

Capitalism won the debate amongst Marxism, Socialism, and Capitalism theoretically because it won practically. Only Capitalism satisfies the can in ought implies can because only Capitalism is capable of supporting a sustainable, flourishing economic community. Capitalism provides for sustainable, flourishing economic community because (i) only those firms whose operations cover their costs survive market competition, and (ii) the bankruptcy system facilitates the efficient redeployment to other uses of assets held by firms whose operations don’t cover their costs. If only Capitalism satisfies the can in ought implies can, and if it does this through the discipline imposed by market competition and the bankruptcy system, then it follows that compatibility with passing the market test must be implicit in any candidate principle of CSR capable of being action-guiding for capitalist firms.

Ought implies can is relevant to the evaluation of Feuerstein-led Malden Mills’ insolvency because, to the extent that Feuerstein’s actions on behalf of Malden Mills in the wake of the 1995 fire are responsible for the firm’s subsequent insolvency, it suggests that one cannot sustainably manage Malden Mills (or other firms similarly-situated to Malden Mills) in the manner that Feuerstein and, by extension, Feuerstein-impressed CSR advocates claim one ought. If ought implies can and one cannot, then it is not the case that one ought. Those claiming that one ought do so in contravention of ought implies can.

Consequently, Feuerstein-led Malden Mills’ insolvency calls for a re-examination of CSR in light of capitalist reality. Trivially, CSR is either relevant to capitalist firms doing business in a competitive market economy or it is not. If it is, then CSR advocates seem forced to acknowledge that their enthusiasm for Feuerstein’s leadership of Malden Mills in the wake of the 1995 fire is misplaced. However admirable Feuerstein’s intentions, his actions were ultimately destructive of Malden Mills as an engine of sustainable and flourishing economic community.

There remains, of course, the opposite tack. Perhaps CSR is not relevant to capitalist firms doing business in a competitive market economy. For some, Feuerstein’s actions just feel so right—and if those actions are incompatible with Feuerstein-led Malden Mills’ survival in a competitive market economy, then so much the worse for the competitive market economy. The clear implication is that we ought to change our economic institutions to make them more hospitable to firms like the Feuerstein-led Malden Mills.
This opposite tack is, of course, available—and many pursue it: antiglobalization protesters being the most prominent, recent example. But if that is what CSR is to become, then it is worth noting that CSR thereby abandons its historic mission of being action-guiding for capitalist firms. It becomes instead—as Kenneth Goodpaster once said of stakeholder theory—a more radical critique of capitalism and of the corporate form than its proponents intend. In other words, it abandons the C in CSR.

In sum, CSR advocates must choose between (i) their admiration for Feuerstein’s ultimately failed model of corporate leadership, and (ii) the continued relevance of their prescriptions to real firms, making real decisions, in a really competitive capitalist market economy. Abandoning the first is acknowledgment only that good intentions aren’t good enough—that for CSR, good ethics has also to be good business. Abandoning the second involves embracing economic nonsense—or nihilism.
Does Common Good Involve Environment?  
Surveying Different Common Good Models with Regard to the Environment  
Laura Baritz O.P.

“For creation awaits with eager expectation the revelation of the children of God” (Rom 8:19)

Among the subjects that most affect our lives as humans today, environment takes a distinguished place as a global problem. This paper is inspired by the phenomenon that environmental, ecological issues – taken as crisis or as values –, can be approached from many different directions and their apprehension and evaluation reflects different paradigms and ideologies. Systematising these from a certain standpoint can help in orienting us. My standpoint here is as follows: How does the Christian approach to common good and to environment relate to other approaches? I survey four abstract models embodying four different systems of thinking. Corporate social responsibility cannot avoid the question whether management and community does have responsibility for common good and environment, and how does this happen.

The models are structured according to the following principles: 1. relationship among the realms of economy, society and environment; 2. common good approaches within the models: a. the purpose of business and economy; b. philosophical backgrounds; c. motivation of people; d. attitude to the environment; e. environmental ideologies. This structure reflects my two theoretical grounds: that is economy and ideology. The ideological viewpoint becomes accented at the third (value driven) and fourth (Christian) model, therefore it seems to be worth analysing and comparing them in more detail. Relying on all these pieces of information we will be able to answer our initial question, whether common good involves environment.

Four models approaching common good and environment

1st model: The “traditional companies”

In this model, which basically describes the state and processes of our world today (globalisation), economic thinking dominates over the social and environmental issues of a community. Its libertarian ideology and neo-positivist philosophy serves as a working background for the ruling materialism in society, business and in spirituality. Regarding social structures, Aristotle is said to be a “dangerous radical” (Noam Chomsky), and common good is considered to be “the problem of collective actions” (Castells). The main goal of individuals, businesses and nations is to maximise material wealth on the basis of self interest (homo economicus). Therefore there is no correspondence between the individual initiatives and community goals (consider the failures of international agreements\(^1\)). The main concerns in the community thinking are the problems of free riders, the prisoner’s dilemma\(^2\), and the chance for realising common interests is viewed as it is described in “The Tragedy of the Commons” (Garrett Hardin).

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\(^1\) The Kyoto Agreement on carbon dioxide emission of the countries failed on the individual thinking of USA in 1997.

\(^2\) Even if it becomes clear in a situation that community interest is favourable to the individual as well, he/she will follow his/her self interest.
Common good is conceptualised as the sum of public goods, which are not effective according to Pareto-conditions\(^3\), they have no property rights, since anyone can have access to them,\(^4\) they occur often as externalities and therefore they are called market failures. This economic thinking would solve the question of public goods by privatisation (making them private goods), placing them under the “omnipotent” ruling role of the market. Environment is regarded as a group of the public goods, having substantial externalitic effect\(^5\).

In terms of companies the environmental issues are made subordinate to profit motives and market situations. Environmental problems are secondary compared to comparative advantages and issues of effectiveness, they are evaluated on the basis of a cost/profit calculation. Environmental protecting measurements can be introduced here, but effectiveness for the firm sometimes means end of pipe solutions or pure keeping of law, minimising the costs to be spent on environmental protection.

Concerning environmental ideology, we could say there is none: environment is considered merely as resource and material for economic activity. Its degradation can be solved and replaced by technical/technological solutions. (Weak sustainability)

2\(^{nd}\) model: The “Good Companies”

In this model society acquires a bigger emphasis in decision making, the main goal of business is to raise the stakeholders’ wealth, to meet the expectations of the society in order to legitimise the goals of the company. Unlike in the value-neutrality of the neo-liberal model, ethical foundations can be observed here, the actors’ behaviour show substantially Kantian features, their behaviour is based on utilitarian- and consequence ethics, their motivation for acting towards the common good is mainly extrinsic. These ethics are outspokenly anthropocentric, the environment does not appear as an ethical or ideological question. As Zamagni puts it, “enlightened self interest” and the phrase of “good business is good ethics” characterise the business operations.

Common good, coming to existence on the basis of the “Social contract” (Donaldson Keely), is rather called here “public policy” administered by statesmen and politicians by means of norms, laws and regulations (Walter Lippmann).

The environment may belong to one of the stakeholders, and deserves interest because of public pressure. In certain cases the economic of pipe solutions, economic operation concentrates on the whole life cycle of the product: applying pollution prevention, product stewardship, recycling processes, selective waste processing. Environmentally sustainable technologies, environmental friendly investments can be used here as well. Internationally, efforts are being made for establishing a global eco-policy (Zsolt Boda), on the basis of international co-operations, institutional network, regulation-systems by norms and laws.\(^6\)

This model strives to validate community interests by political means (extrinsic norms, laws), while our previous model saw the solution of community problems in the ruling force of the market.

There is a third kind of solution to harmonise individual and community interests and to enforce public interests: it is based on the intrinsic, self-regulative ethics of individuals. We shall survey this in the third and fourth model.

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3 The marginal rates of substitution to decide an optimum situation of welfare have meaning only in case of private goods. Pareto’s thinking does not involve the difference between allocation and participation of goods. (Alford – Naughton)

4 They enjoy non-rival consumption, non-excludability in Samuelson’s terminology.

5 The advantages and disadvantages of an environmental action can be enjoyed by many other actors besides the emitter.

6 I.e. the Montreal Protocol on materials damaging the ozone layer of the Earth; the initiatives on a global sustainability (Bruntland report); the introduction of international ISO standards, etc.
The following models carry an alternative character and a different paradigm compared to the first two ones. While in the first two models the dominant sphere of life was economy, here social and environmental, ecological values constitute a limiting frame to it. Consequently, the ultimate goal of business is not purely the pursuit of profit. There are other ends besides it and many authors speak of the profit being a tool to serve other ultimate goals, such as common good (Chapell). Common good involves ethical values here, like responsibility and respect for the stakeholders. It means “securing the wellbeing of a company’s stakeholders, that involves environment.” (Chapell) The environment constitutes an integral part of the common good, based on it’s intrinsic value and sometimes sanctity.

This model is called “enterprising for others” (G. Toth), or enlightened capitalism, attentive capitalism (O’Toole, Roddick), or the capitalism of the common good (Chapell). To these accounts belong companies like Body Shop, Tom’s of Maine, Ben and Jerry, etc. and are called alternative capitalists (Pataki-Radácsi). Obligation ethics, virtue ethics, and often feminist ethics of concern, empathy, tolerance, intuition, co-operation can be mentioned here, all of them based upon intrinsic motivation.

This model also involves an alternative scientific economic approach, which can be best marked by the names of ecological economists like Herman Daly, John Cobb Jr., Richard B. Norgaard, Inge Ropke, Paul Ekins, Nicholas Georgescu-Roegen, etc. Their alternative economic belief involves the phrase of “Steady-State Economics” (Daly), the “eco-social market economy”, where the main neo-liberal goal of unlimited economic growth and consumption would be strongly criticised and instead the harmonious development of integrated economical and ecological systems would be emphasised. These economists introduce a new way of economical thinking based on the ecological systems and processes\(^7\), sustainability models and the logic of enthropy (Georgescu-Roegen). Instead of focusing on globalisation their preference is a regional, highly decentralised economy built around small communities, based on local resources, scaled to real human needs and stewardship of the planet. These ecological economists’ thoughts involve Christian features, too (Daly, Cobb, etc.).

Regarding environmental management, the value based, eco-centred management of Shrivastava concentrates on ecological sustainability of a company and its stakeholders. This can be achieved by “Total Quality Environmental Management”, which involves life cycle analysis from product planning and development to waste processing and environmentally friendly technologies and products. This eco-centred management questions the necessity of a steady growth and technological optimism, too, and it rather emphasises sustainability of sound ecosystems. Here we arrived at the topic of the ideological, ethical background of this model.

Bernhard Haring (1980-81), Alfons Auer (1984), Purser – Park – Montuory (1995) and Harsányi (2006) base the differentiation between the numerous kinds of environmental ethics on the axis between the anthropocentric and eco-centric (anti-anthropocentric) corners, where we can find a wide scale from utilitarian (“strong and week anthropocentrism” /Harsányi/), through Judeo-Christian conceptions to Aldo Leopold’s land ethics, modern pantheism, deep ecology, Gaia Hypothesis.\(^8\) The distinction here means whether the environment is viewed on the basis of its utility, its instrumental value, or it carries an intrinsic value; what this intrinsic value is like, and what kind of relationship exists between humans and nature. On this scale we find “relative anthropocentrism” (Harsányi), the

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\(^7\) The key units of ecology are ecosystems, involving human beings as well, representing interdependence and systems of subsistents of life from simplest to most developed ones.

\(^8\) From pure pantheism we have stepped onto the ground of New Age with the last three categories.
Catholic approach to environmental ideology. Before we enter into deeper analysis of environmental ethics and survey the Catholic standpoint, we outline the fourth model.

4th model: The companies operating in virtue of the Church’s Social Thought

This model can be considered as part of the previous one since the majority of the characteristics there are valid here too, but its grounds in Christian traditions, theology and ethics make it unique at the same time. Environment, society and economy constitute an integral unity here, business operations strive to improve human quality of life paying attention to the loading capacity of ecosystems. Economic processes are completed with morality, and the ultimate goal of economic, business activity is to further the common good. Common good is to be understood as the Aristotelian/Thomistic tradition describes it: “human fulfillment both individually and in common” (Alford – Naughton). This means that common good is seized anthropo-centred. Nature has intrinsic value here, too (Gaudium et Spes 36: “the autonomy of earthly affairs”), but this value is based on nature’s dependency on God. The basic difference between Christian and non-Christian approaches to environment can be found in the way the relationship between human and non-human part of nature is understood. (Harsányi) While strong anthropocentrism stresses aggressive, exploiting domination of humans over environment, deep ecology concentrates on their oneness, equality and sanctity only. Christian perception stands just in the middle. There is an ontological, biological and ethical difference between the human and non-human part of nature, but at the same time they show strong biological, metaphysical and inter/intra-dependent oneness as well. The human person is part of nature but differs from it at the same time. The humans’ responsibility towards environment does not allow them to acknowledge the pure utilitarian principle, but it allows them to acknowledge the intrinsic value of nature. Their relative responsibility calls them to take part in the providential dominion of God (stewardship) and to be responsible to God for the environment. This dominion is humble and has constrains: it is restrained by the God-given feature, intrinsic value and intrinsic laws of environment. Moral considerations (knowing good and bad, Gen 3,5) mean constraints as well: it is an intrinsic moral obligation of human persons to protect the environment and respect creatures. John Paul II. calls unity of creatures “cosmos” in SRS 34. Contrasting this relative anthropocentrism with the autocratic subjugation of nature of strong anthropocentrism, the pope introduces the phrase of “anthropological fallacy”, where the human tyranny of conquering nature means that the human person wants to take God’s place. This strong anthropocentrism lacking in moral concerns is rather characteristic of our 1st model. With these thoughts above we refuted Lynn White’s and John Passmore’s accusations against the Judeo-Christian anthropocentric way of thinking that causes all harms to environment in the world.

How does the environment relate to common good in this model? We have set out from the intrinsic value of nature, which involves not only usefulness, but aesthetic, recreational, psychological, physical values as well. According to Francis of Assisi the intrinsic value of nature reflects God’s goodness and beauty. Since nature’s existence is not confined to being useful for the human person, so its role in the common good is not purely fulfilment of human persons needs, but itself carries a fulfilment character as well. St Paul describes this in Rom 8,21. Since the loving purpose of the Creator is to bind the human person to unity with nature, leaving their ontological difference untouched, He sets both of them towards their own fulfilment (Harsányi), which follows actually in Him, being the ultimate End of all kinds of existents. This double fulfilment can be illustrated with the role of

10 “For the creation waits with eager longing for the revealing of the sons of God…that creation itself would one day be set free from its slavery to decay, and share the glorious freedom of the children of God” (Rom 8,19-21)
nature in Alford – Naughton’s common good model: air, water, forests are foundational goods if we consider their usefulness, but they are excellent goods as well, when we think of the beauty of a rose bush or of the glittering waves of a stream. They are particular and common goods and can be allocated and participated at the same time (see the case of rainforests). This division shows that on the one hand nature fulfills basic and higher needs of the human person expressed on Maslow’s hierarchy, but on the other hand it pursues its own fulfillment too, which derives from its intrinsic value. This approach refutes Lynn Whyte’s accusations against the Judeo-Christian conception about nature, since it suggests that nature cannot be deduced from the human person completely. If we involve the environment into our common good model here, we could phrase common good as fulfillment of creatures with human stewardship and responsibility as well. Contrasting this common good definition with the pantheistic ones, we conclude that pantheism describes an “apparent” common good. Not drawing a distinction between human and non-human parts of nature, nature does not constitute a common good (in our Aristotelian-Thomistic “anthropo-centred” meaning), since it can serve neither the human’s nor its own fulfillment, because the pure immanent God-conception of pantheism does not involve the ultimate End character of God. The sanctity of nature is “apparent” too, because of the missing transcendence of God. These eco-centric, pantheistic approaches can be even harmful to humans in evaluating, ranking, classifying situations. They devaluate the value of the human person.

Conclusion

In terms of environment Christianity is faced with two accusations: first, that we are the theoretical cause of the world-wide environmental degradation with our dualistic and utilitarian approach to nature based on Gen 1,28, when God says “have dominion”; and second, that Christians, Christian thinkers do not care too much about environment. The first accusation can be refuted with reference to Descartes’ dualistic and mechanistic worldview; and the deism, empirism and utilitarianism of Enlightenment that became the dominating ideology behind economic and social activity of modern times, replacing Christian thoughts and approach. It is more difficult to argue with the second charge, where theoretical and everyday life are separated from each other. We can refer to many theoreticians throughout Church-history who focused on nature (creature) in their works or spirituality. (Beginning with the Evangelist John with his Prologue and the apostle Paul; through Johannes Scotus Eriugena and mystics like Master Eckhart; or Franciscans like Francis of Assisi, Duns Scotus, Bonaventure; and the German apologist Steinheim; all the way to Rahner, Pannenberg, Moltman of today.) At the same time it is true that in everyday life the environmental, ecological issues of our age are rather coupled with pantheistic, new age spirituality and ideology, or with strong anthropocentrism. Both can cause ignorance to environment in everyday life.

Surveying our common good models we conclude that the more we move away from pure materialistic, self-centred, positivist grounds towards value driven models, the more environment constitutes an integral part of common good. As we have seen, the Christian approach to common good functionally involves the environment. As John Paul II. puts it: “Nor can the moral character of development exclude respect for the beings which constitute the natural world, which the ancient Greeks – alluding precisely to the order which distinguishes it – called the "cosmos." Such realities also demand respect...” (SRS 34.) Based on all we have said above we are now in the position of answering our initial question: Yes, common good does involve environment.

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11 This statement indicates that final source of values, substances, systems and ultimate end of all kind of fulfillments is God, the Creator.

12 Their way of approaching nature will be introduced in the final paper, together with modern Christian eco-theologian trends of apologetical, sacramental (creation theology) and eschatological experiments. (Haught)
P. Hefner’s Concept ‘Created co-creator’ as a Source of Inspiration for a Sustainable Corporate Environmental Responsibility

Francis Kadaplackal

Thesis: An ethically justified, philosophically valid and theologically qualified anthropology is essential in dealing with the current environmental crisis. We argue in this paper that the concept ‘created co-creator’ (CCC) developed by P. Hefner, can function as a healthy paradigm in business firms since it includes both secular (Corporate Social Responsibility- CSR) and religious (Catholic Social Thought- CST) dimensions. Furthermore, this concept opens up many possibilities for dialogue between CST and CSR. CCC advocates those business choices and policies that respect the natural environment and positively contribute to environmental health. CCC acts as a good and active steward by appreciating and respecting the goodness of creation and by contributing profusely for the protection and promotion of a sustainable environment. CCC aims to accomplish the common good while doing good business and making ethically justifiable profits.

Summary of the Paper

Business enterprises and companies come under strict scrutiny in the critical gaze of the society, especially in this age of globalisation, information revolution, technological advancement and the rat race of the market economy to make profit. The ability of business enterprises to contribute to the overall development of the society in general and their philanthropic dimension in particular are closely investigated in our contemporary society, and these are relevant in the context of our discussion about what a ‘good company’ is or can become. Accountability for all their undertakings is something that the society expects of the business firms and the label for a company to be good or not would then depend on whether they have acted responsibly in the given situations. Society has a very sceptical view of business enterprises and suspects their credibility, especially after the fall of giant firms like Enron and the circumstances that have led to this.

Development and progress appear to be the backbone of our societies, especially when people want to achieve a better standard of life and enjoy the fruits of the technological and scientific innovations. Though development and progress are applauded, there is a growing concern about the environmental crisis, which is said to be a product of the complex situation in general and the negligence on the part of the human beings in particular (Attfield, 2003: 17-21; Cunningham et al., 2003: 370; Moltmann, 1985: 21, 2001: 169). Business firms have a major role to play in societal development and in this process we need to take into account the impact of their activities on the natural environment. Humanisation of the economy and balanced development, with specific emphasis on the interpersonal dimension, capabilities and ethical behaviour are real needs now more than ever before (Sen, 1993: 61; 1999: 269; Zamagni, 2000: 167). The success of a business firm cannot be evaluated merely on the financial gains that it is able to make, but it should also be based on its ability to contribute towards the overall development of individuals and societies. Furthermore, it should take into account the impacts that it has on the natural environment and strive to contribute positively to its protection and betterment.
The Brundtland Report (1987), the Rio Declaration (1992) and the World Summit on Sustainable Development (2002) have made praiseworthy efforts and contributions to balance economic growth with environmental health and sustainability. Though anthropocentric in their approach, these different commissions have stressed the need to make a good review of the current policies and practices. They were convinced of the fact that economy should be linked to ecology and that time was ripe for the humankind to accept the responsibility for the causes of the environmental damage as well as its consequences. They have argued that development should aim at the well-being not only of the present generations, but of the future generations as well. In spite of their highly anthropocentric overtones, they also make mention of the fact that nature should be preserved and that we have a moral obligation towards nature and other living beings. The UN Global Compact (2004) as a regulatory instrument emphasises in its core principles (7-9) that companies should promote greater environmental responsibility and adopt environmentally friendly technologies. The reassertion of an ‘ethics of responsibility’ based on an ethically qualified and environmentally friendly anthropology is by all means vital now, since our decisions are greatly influenced by our understanding of the role of the human person. This must take into account the goodness of creation and the creative capabilities of the human persons in their efforts to achieve the common good, if we are to achieve sustainable development and true progress in the present context (Hammond, 2006: 28; Jonas, 1979: 198; Keenan, 2002: 20; Williams, 2005: 755; Kadaňplackal, 2005: 115; Alford et al., 2006: Working Draft).

Catholic Social Thought (CST) as a tradition has contributed vehemently to the bridging of gaps in the society by emphasising on the first order principles of human dignity and common good and the second order principles of the subjective dimension of work, subsidiarity and social nature of property. Corporate social responsibility (CSR) has done this by engaging in the fields of business ethics and business enterprise by laying accent on the stakeholder theory, corporate citizenship and sustainability (Copeland 1993: 322; Sedgwick, 1999: 258; Verstraeten, 2000: 64; Maines & Naughton, 2006: Working Draft). There exists a need to enter into a deeper dialogue between CST and CSR so that we can work towards the protection of the environment by combining the CST-CSR principles. Even though the stakeholder theory has its advantages, it has a limited focus especially with regard to the achievement of the common good (Alford & Naughton, 2001: 41; Orts & Strudler, 2002: 215) and environmental sustainability.

I am of the opinion that a sound anthropology is necessary to enable a better dialogue between CST and CSR. To put an end to the eco-suffering, we need to go beyond egocentrism and selfishness in our dealings with nature. In the implementation of business policies and practices we must strive towards the achievement of greater environmental health and integral human development through the accomplishment of the common good. To this end, we certainly need to have a philosophically valid, theologically qualified and ethically justified concept of the human person that reaffirms human dignity, active participation, and the realisation of the common good and supports genuine progress and healthy development.

Christianity’s ‘theology of creation’ has been constantly under fire due to its alleged negligence towards the natural environment based upon anthropocentric interpretations, attitudes and behaviour (White, 1967: 1203-1207; Ruether, 2003: 226). Scholars like Hall, Coste and Wirzba find this an exaggeration, though they admit that we need to look closely into our own tradition and undergo ‘metanoia’ and examine if we have been good stewards. Hall says that “deliberate hostility toward the creation is not the charge. But it is at least possible that the custodians of our
relational tradition have used it, and permitted it to be used, to create a spiritual-intellectual atmosphere in which certain attitudes and practices of a questionable and dangerous character could emerge” (Hall, 1986: 24-25; 1990: 188-191; Coste, 1994: 42-47; Wirzba, 2003: 126). A critical and constructive analysis of Christian theological anthropology and a positive appreciation of the goodness of creation can help us to reinterpret the proper role of the human persons in their relationship with God, other human persons and the world (Ratzinger, 1995: 45; Keenan, 2000: 27; Fern, 2002: 167; Siegenthaler, 2003: 242).

In this context, I would like to introduce the theo-anthropological category ‘Created co-creator’ (CCC), developed by P. Hefner (1988, 1993, 1997, 2005) and which has now become an important concept in the theological circles, in the discussions about the role of the human person in the world. Hefner has developed at length his theology of the created co-creator, especially in his book of 1993, The Human Factor. Evolution, Culture and Religion. According to him, “human beings are God’s created co-creators whose purpose is to be the agency, acting in freedom, to birth the future that is most wholesome for the nature that has birthed us – the nature that is not only our own genetic heritage, but also the entire human community and the evolutionary and ecological reality in which and to which we belong. Exercising this agency is said to be God’s will for humans” (Hefner, 1993: 27).

According to this theo-anthropological concept, the human person is first and foremost ‘created’ by God and ‘willed’ by Him. In his createdness, the human person has received the task to ‘co-create’ in order to bring the creation to the purposes that God has for it (creatio continua). By emphasising on the various dimensions of ‘createdness’ and ‘co-creator’, this concept offers us a unified view of the human being, makes room for the conditionedness of the human existence and puts forward freedom, responsibility and creativity as the qualifiers in this process. Furthermore, this reaffirms the irreplaceable presence of God as the Creator; the active, participative and productive role of the human persons in the world and the value and goodness of the whole creation (Hefner, 1993: 27-32, 2005: 184; Fern, 2002: 160; Peterson, 2004: 829; Doncel, 2004: 794; Grenz, 1994: 169; Naughton, 1992: 78; Case-Winters, 2004: 815).

As created beings, we are ultimately creatures, and as such dependent. By acknowledging that we are created, we accept the fact that we are not the source of our existence and that we are not the sole designers of our own place and role in the world. We are to see ourselves as derived, and in this way we are conditioned. This conditionedness has its origin in the divine creative activity. Hefner opines in this regard that the “Homo sapiens did not emerge to be conquistador, dominating and pillaging as the opportunity arose. Rather, as creature, the human serves the process of the creator, and all of the possibilities, activities, and achievements of the creature are to be referred to the created order and the purposes with which it has been endowed” (Hefner, 1993: 36). The term ‘co-creator’ refers to the freedom of the human persons, which is a foundational and fundamental condition of existence. Through this freedom, human beings are capable of facing situations in which they have to make choices, which have enormous influence in shaping the future of the world, including their own. In Hefner’s words this would mean the following: “Humans cannot avoid the freedom to make the choice, and only humans can construct the stories that justify such choices… environmental policies require a myriad of value judgments concerning the comparative values of the earth and of humans and other forms of life. Humans cannot avoid such policy-making and the value judgments inherent to that policy. Further, only humans can construct the stories that provide the justifying arguments for such
judgments” (Hefner, 1993: 38). This is also the dimension that emphasises the possibilities for ‘human becoming’. Without freedom, the human persons will not be able to play a creative and constructive role in the world to which they belong. They are designers of their own destiny, but always in reference to God and his purposes for the creation. As a creature, the human person is called to be a ‘co-creator’ with God, in fulfilling God’s purposes for the creation. But this freedom that we refer to here should not be mistaken for equality with God. Human persons are basically creatures and can therefore never be considered equal to God, since they are dependent on the Creator for their creative activity. To be able to interpret the term in its right meaning, the ‘co’ in the created co-creator has to be emphasized adequately.

The created co-creator has to be perceived in the light of the creation and its purposes. Without this essential dimension, the created co-creator loses its meaning. The purposes of God for the creation connect the humans to the destiny willed by God. As human persons we are embedded in this world, out of which we ourselves have evolved. The world (nature) becomes the stage for all our operations. The natural web of interrelationships, within which we find our place, suggests that the purpose of human existence should be referred to this web of interrelationships. The human construction of purposes has a great influence in the natural world especially if we place it in the circle of relationships.

In my opinion this concept can contribute in a significant manner in our discussion about the good company and its efforts to promote environmental protection. First of all, I think that CST and CSR can profit considerably, since CCC can be interpreted not only theologically but also within the secular circles such as in the functioning of business firms. It can certainly promote the dialogue between CST and CSR, by providing a unified image of the human person, one that is acceptable and beneficial to both areas. Second, by emphasising on the ‘creative dimension’, CCC heightens (1) the dignity of the human person, and the unique value of work, which are central to CST, based on the Holy Bible (Gen.1:26-28) and stressed in many official documents of the Church (RN, 62; QA, 119; PT, 35; EV, 42; PCJP 2004: 262) and (2) the role of personal creativity and engagement (PP, 27; GS, 21, 35, 53; RH, 15; LE, 4; SRS 29, 34) which results in objective and subjective outputs. Third, if we interpret business as a community of persons working for the common good (Alford, 2006: Working Draft), then the CCC can function as the catalyst that drives the movement by ensuring that this process becomes an ethically qualified undertaking. Fourth, by discovering the purposes that God has for the creation, the CCC works as a good and active steward by recognising and respecting the goodness of creation (OA, 21). Fifth, in the choices of principles and implementation of policies within the business enterprises, the CCC ensures that profit-making does not overrule human dignity and the integrity of the natural environment, but that these choices will lead to environmental protection and sustainability. Sixth, by engaging responsibly and acting in freedom, the CCC inspires us to go beyond limited utilitarianism and selfishness. CCC encourages the values of temperance, fairness, and equity and guarantees that the material goods are not misused. This is achieved through the implementation of environmental regulations through ethically coherent, credible and fair practices in order to create a more just society. In this way CCC transforms a business firm into an ethically sound enterprise that contributes to the common good and accomplishes environmental protection and sustainable development.
The ‘Good Company’ Facing Financialisation: The Relationship between Corporate Choices and the Institutional Environment in the Light of Catholic Social Thought
GianDemetrio Marangoni and Stefano Solari

1. Financialisation and Firm behaviour

Financialisation, by which we mean the ever greater importance of strictly financial considerations in economic affairs, is of special concern to persons who turn to catholic social teaching for guidance in everyday activities such as working, spending, and investing.

Financialisation is represented by a rise in both financial assets and liabilities of (non financial) companies as well as an increased share in value added by sectors connected to financial intermediation and rent.

It has three negative effects:
1. a progressive separation of economic activities from social norms;
2. a loosening of moral values in economic decisions deriving from a systematic subordination of ethical principles to profit maximization;
3. a dominance of financial gains over other economic considerations, such as meeting basic human material needs, providing jobs that pay a living wage, protecting the environment.

The firm is one of the main carriers of this transformation. In the 1990s, the diffusion of the ideology of shareholder value emphasised the primacy of value creation over other issues in organizational governance, shifting power to shareholders and changing management priorities (Williams, 2000; Lazonick and O'Sullivan, 2000; Stockhammer, 2004). An increasing attention to financial gain over standard operating income is the main effect of this change.

The firm is also a victim, in the sense that it undergoes a process of deconstruction relative to relocation and is downsizing its labour force and fragmenting units production.

Building an organisation that creates products conforming to consumer preferences has been replaced by pursuing short term opportunities for financial gain, taking production capabilities as given.

There are many factors contributing to the financialisation of the economy. We enumerate three.

1. Globalisation and institutional reforms oriented to deregulation have assured that financial capital has an unprecedented freedom of movement, which at the same time is not assured, for a number of reasons, to for labour and other sorts of capital. Capital has been released from several ties and has become more and more liquid and mobile.

2. Institutional investors have become the managers of huge financial resources and are quite influential in corporate governance.

3. A strict financial logic has spread from the proper sphere of financial markets to all economic activities due to an erosion of the humanities, and liberal arts in general educational curriculum and a materialist cultural change (Lissack and Richardson, 2003), that, in turn, leads to a breakdown in ethics in economic affairs. Formal education is not effective in replacing ethical values: business schools teach trading off ethical values for financial gain.
The financialisation of the economy has induced a dominance of finance over production and a weakening of labour and community interests relative to capital. Moreover, the negative effects also are visible in small companies and in industrial districts, which, up to now, have been the centre of a ‘humane economy’ (Roepke, 1960; Toniolo, 1952). Much of the original ideas of the Catholic Social Teaching (CST) on the desirability of small enterprises and capital-labour collaboration is lost and difficult to reconcile with the new economic reality.

As a consequence, some form of collective action is urgently needed to strengthen economic institutions in order to promote ethical behaviour. Internal company initiatives in social responsibility need to be complemented by external institutional effort.

To contribute to a deeper understanding of the issues surrounding financialisation we refer to the original works on political economy by neo-Thomists.

2. CST and the importance of rules and rights

We begin with the following questions. What is the impact of financialisation on society and on the human person? Is this new situation respectful of the basic principles expressed over the years by CST? How much is a society that is working more and more around purely financial variables able to assure the basic dignity of human beings? In particular, is financial rent becoming a ‘measure’ in contemporary society compatible with CST?

To address these questions we refer to the concept of solidarity at two levels.

First, at the rule-level, solidarity consists of cooperation oriented to fostering rights and rules, and aims at assuring a sound institutional environment for economic activities. Rule-level solidarity is a precondition for any truly efficient economic choice in the sense that it rules out economic choices that are destructive of the very institutions we depend for our well-being.

Second, at the actual action-level, solidarity consists of economic choices – taken within a given set of rules – in accordance with ethical ends: to act (or to refrain from acting) in a way that achieves the common good which, if we trade-off social norms and institutions for short-term financial gain, will inevitably be endangered.

Here, we would like to focus on the rule-level solidarity. Following Heinrich Pesch (1905 vol.1:225), we assume that the economy displays solidaristic characteristics because institutions relate the individual to the whole community. Our interest therefore is in the order of rules which should be ethical in the sense that they help achieve sound ethical results (Taparelli, 1854:257).

However, ethical principles cannot easily or directly be detected in the economic structure: they require interpretation. Taparelli, Liberatore, Pesch, Brants and the many contributors to CST affirm that economics is a practical science, oriented to practical wisdom, that is to discovering the best ways of acting. It adopts a substantive view of the economy relating it to man’s needs and society’s order. The classical natural law states the inseparability of morals and institutions, and those institutions therefore should be judged for what they help produce.

Many free-market theorists presently are reclaiming ethics, acknowledging the defect in the unfettered market economy in achieving good social and economic results. On the one hand, there is a recognition of the limits of the positivistic separation between fact and value, or of the ‘value free technical nature’ of economics. On the other hand, inserting ethics in economics inevitably leads to an increase in the complexity of economic analysis.

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1 Taparelli also proposes a duty of sociability and cooperation according to the natural order, in which society remains a means (against idealist thought) not an end. The law is ‘the moral force, according to reason, binding one to the will of others’.

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3. Does financialisation lead to an ethical order?

Financialisation theoretically is justified by the neoclassical global conception of the automatic stabilizing role of competition and mobility of resources. Any other source of economic order is not significant and it is seen as an obstacle to a good market order.2

Neoclassical theory argues that:

1. corporate governance is exposed to strong forces to adapt to the logic of financial markets and short term profit;
2. shareholder value, as the main objective of corporations, contributes to enforce the efficiency of the general order and to increase the shareholder class.

However, reality is quite different. Shareholder value tends to weaken the role of stakeholders, labour in particular, and to extract excess profits unrelated to basic performance of the firm. Shareholder value requires no impediments on corporate governance. The differential mobility between capital and labour produces unbalanced forces in the determination of relative prices. In this way any rule, right or ethical elements at stake in corporations is traded-off for profit, which becomes a sort of rent because much of entrepreneurial risk is shifted to stakeholders.

The situation worsens when institutional investors own companies for the following reasons:

1. institutional investors tend to manage organisations as if they were assets, not communities of persons, looking for increases in capital value;
2. these investors put profit ahead of all other issues because of their social role of managing diffused saving;
3. they legitimise the managerial function to reduce costs without any social or personal constraint and reward managers financially for assuring compliance in cutting other costs.

As a consequence, the new financialised order presents rent at a critical and pivotal point. CST justifies rent as property income from productive assets as well as interest taking. Concerning the latter, most of the reasons for rent given by economist have been accepted by the Church. Pesch argued that ‘We accept...interest in this modern era as the recompense for a service whose value is measurable, i.e., in terms of the opportunity to make a profit being provided with a sum of money’ (Pesch, 1905:199 vol.5/2).

However, Ratzinger (1881) was more cautious and differentiated lending for production purposes from lending for consumption purposes. In the latter case interest is less morally acceptable because it is oriented toward exploiting human weakness and misery. This indicates that rent should not be accepted as an abstract category but for its practical consequences. Thus, justice-based arguments have to inquire into the merit of specific institutional arrangements. The legitimacy of rent is not questioned, the issue is its position in the distribution of value, that is whether it should assume a primary or secondary role.

The problem then is balance financial gains against other economic factors. CST already has expressed some judgement in this matter. Toniolo (1913) warned against the transformation of capital from an auxiliary and instrumental factor into a dominating and pervasive force able to conform any institution to its logic. In particular, he warned against disembedded capital which would have made any economic relationship precarious by not participating in the risk

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2 For example, codetermination in Germany, which owes much to von Nell-Browning (1957) theorising, and which delivered good results, is presently endangered by financialisation and by the demand of institutional investors to cancel it.
of production. That would lead to a separation between economic practice and moral principles (Toniolo, 1913:250).

Moreover, generalised rent over returns to other factors of production, especially labour, tends to be a technically questionable situation. The self-referentiality of financial markets and the quest for capital gain tend to produce bubbles and to transmit a crisis to the rest of the economy (Toporowski, 2003).

Finally, the financialisation of the economy does not only concern large corporations. It also has an impact on small firms becoming more and more disembedded from the socio-cultural environment. The separation between capital and the other factors of production in the small and medium enterprises similarly is due to the practice of trading off everything against profits, of over-evaluating the role of competition over collaboration, organisation, participation and personal commitment.

Rules are needed for re-transforming capital in way that is complementary to the labour factor. Corporate social responsibility experiments are not enough; they need to be backed by solid general institutions.

4. Education and collective action

In this paper we do not propose substituting good practices and spontaneous initiatives of firms with government action. On the contrary, bottom up initiative is seen as the main reform needed. However, sound practices and the evolutionary progress which can be produced by them risk being strongly constrained by an unfavourable institutional environment. Economic institutions align individual incentives to society’s ends. As a consequence, collective action at different levels is welcomed to restore some rule which balances the relative mobility of the different factors of production. Creating stakeholders rights of participation with an increasingly disembedded capital would be really difficult. We argue that in an economic environment in which good social outcomes are increasingly traded-off with profits, individuals cannot bear all the responsibility for ‘pro-social’ outcomes.

Ethical behaviour emerges only within the framework of the right institutions. Individual ethics should be complemented by socio-economic institutions helping individuals work for the common good. They include education, entitlements, and the acknowledgement of rights and duties.
Our City is Your City or Your City is Our City
Frank McHugh

1. Introduction: Thinking Ethics while Learning Finance
From a narrow, authoritative base the Catholic tradition of early moral teaching on money and commerce (in the form of the debate on usury) broadened out into a nuanced finance ethics. Noonan demonstrates that this was brought about by the close attention paid by Scholastic theologians and Canon Lawyers to detailed study of new forms of financial contracts and banking practices which developed with early capitalistic trading. The process may be described as ‘Thinking ethics while learning finance.’ Noonan even goes so far as to claims that these early theologians formulated the foundations of economic theory in the course of dealing with the moral problem. Another element in the modifications made to a strict doctrinal approach was attention to the Roman Law. Progress in developing finance ethics has been slow: ‘As a field of study, however, finance ethics is barely formed, and so the first task for a writer in the area is to define the subject.’ (Boatright). Any attempted development of economic, business or finance ethics would do well to keep in mind:
   i. attention to economic realities of the time
   ii. attention to what has been developed in the law.

2. Neoclassical economics and the Side-lining of Ethics
Ethical theory developed in a ‘scientific’ mode based on three assumptions:
   i. the rational, maximising behaviour by agents whose preferences are pre-set;
   ii. a focus on attained, or unstoppable movements towards equilibrium;
   iii. exclusion of information problems (allowing at most for probabilistic risk).

This *homo oeconomicus*, an instrument of economic forces, operated with a certain automaticity. There is little room for imagination or choice, and so no place for anything resembling traditional ethics. As Keynes said: ‘Some day we will get the system so right that goodness will become unnecessary.’ The economics of George Shackle is drawn on as an alternative economics theory which allows for ‘final causality’, intention, choice. Although he pays little explicit attention to ethics, he does have concepts (knowledge, choice, risk, uncertainty, ‘un-knowledge-, time) and an agenda which opens up dialogue with ethics.

3. The Place of Ethics in Courses on Business.
Some findings on courses in business and management, and the place of ethics in them will be presented. Findings are not positive. Ethics is not really on the agenda. As J K Galbraith says: ‘The student must be liberated from the textbook’ – because the academic constituency simply works with ‘off-the-shelf-models’.

4. The Eternal Return of Ethics
An exploration of how ethics is being brought back into the public arena, if not in terms of theory or theological moral thought, then as ‘issues of ethics’ (e.g. the ‘green’ agenda, or ‘ethical investment’); or under alternative terminology such as ‘corporate governance’ or ‘corporate social responsibility’.
Some Useful Interlocutors: Three Pioneers in Business-Managerial Ethics

Galbraith’s contribution was more clearly ‘economic’ than that of the other two. He took an institutional approach to economics, appreciating at an early stage the fundamental change brought to the ‘new organizational economy’ by multinational corporations, with the technology, innovation, power, political connections and State alliances. (See Appendix A for one picture of corporation scale). This raised issues like the arms trade, foreign affairs, environmental problems, which were submitted to a form of ethical scrutiny. Because he emphasised the ‘public impacts’ of commerce and the structural forms of decision-making, Galbraith addressed these matters in terms of corporate governance or corporate social responsibility (CRS). He thereby opens up a debate with ethics – and (in the case of this particular conference) with the system of Catholic social thought (CathST). In a contribution which he called ‘The Emancipation of Belief’ where he identifies factors with potentially undesirable cultural consequences, he comes close to providing ‘a structure of ethics’:

* the pedagogy of economics, which does not work for understanding but o preserve institutions’ own specialised knowledge;
* the present orientation of the education institution which is to preserve the status quo in economics, business and management;
* advertising as a form of structural control;
* control of public policy ands the use of taxes and finance as instruments of public policy:
* male control of economics and public policy.

Drucker: An institutionalist and a pragmatist, with a strong awareness of the transformations brought by ‘the new organizational economy.’ He considers that the new economy has acquired a sufficient life and identity of its own, along with an appropriate culture, as to deserve a title ‘Post-Capitalism’, in a way similar to the description of ‘the Enlightenment’, ‘capitalism’, Modernity.

Foreshadows a sociology of ‘public impacts’ and structural imperatives:
- environment: society, structure, the market, customer, technology;
- mission: service to the family, workers, the wider society.
- core competence: the role of the executive and management.

Ethics: He is explicit about ethics, which he views in terms of social ethics. He has a positive ethic about purpose of business (the creation of wealth) and discusses ‘efficiency’. But his emphasis on social impacts forces him to present an ethics of ‘effectiveness’, such that corporations are a) centres of effective social action; b) chief elements in ‘Civil Society’. He is explicit about ethics in two ways:

1. ‘A problem about ethics that is peculiar to the manager arises from the managers of institutions being collectively the leadership groups of the society of organizations. But individually a manager is just another employee.’

2. In terms of the particular description and duties of Non-Profit Organizations (NPOs).
Ghoshal: He offers a clear starting-point for his discussion: ‘Much of the perversity of corporate management stems directly from this unconscious adherence to theories derived from this negative and erroneous view of the role of companies in society.’ The erroneous view he is referring to is the underestimation of the ‘hyper-complexity’ of corporations which constitute the ‘new organizational economy’, with its social impacts and connections to political power. His aim is to ‘expose the old, disabling assumptions of existing things that lie at the root of the problems.’ There is no way forward, he writes, until ‘we abandon the oversimplified laws of the market economy and accept instead the reality of the organizational economy; only then can we clearly discern the value-creating role of the companies and begin an enquiry on why and how to create value.’ Here immediately is a starting-point for dialogue with CathST, which (following Aquinas) proposes a theology of the creation of wealth. (A quotation from *Summa Theologiae* will be discussed).

Ghoshal on Ethics: More than the two previous interlocutors, Ghoshal is an explicit proponent of ethics in business, and his (theoretical) approach is susceptible to dialogue with CathSt. He quotes Aquinas and Luther on one occasion as a more fertile foundation for economics and business than the ‘science’ of Einstein and Isaac Newton. At a practical level he claims: ‘In a practical discipline like management’, he writes, ‘its normative influences can make it uniquely beneficial or uniquely harmful.’ Unlike Drucker, his place for ethics is not simply pragmatic: ‘The social concern that follows is how this force with behaviours that most will view as moral or ethical, or, at the very least, as reasonable and, indeed, whether it is possible to do so in any systematic way.’ He develops these ideas inside a framework of ‘corporate social responsibility.

6. In Search of an Adequate Economic and Finance Ethics: The structure of CathST as a ‘political economy’ is illustrated in order to argue that a case can and must be made for an economic and finance ethics which is integral to the ‘new organizational economy.’ *(See Appendix B).* An adequate discussion would include a content analysis of modern textbooks to see the degree to which they meet the sorts of ideas in the four interlocutors. The next stage is to show how this ‘rational’ political economy structure fits inside an explanation of ‘religious ethics’. Most useful at this point would be a comparison with the excellent text of Alford & Naughton *Managing as if Faith Mattered*.

7. Catholic Social Thought. A summary of ideas on CathST is proposed, with strong emphasis on the role of Middle-Level Thinking in order to clarify the possibility of dialogue between CathST and corporate social responsibility. Discussion of the vision of CathSt: the Common Good, and its basic concepts: justice, solidarity and subsidiarity, and how the relate to corporate social responsibility, defining this as: ‘Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large.’ *(World Business Council for Sustainable Development: Meeting Changing Conditions. 1999).* This comprehensive statement (scarcely a definition) is deficient at a theoretical level (no theory of justice, for example), but useful on social impacts, but deficient at a theoretical level, in that it lacks a theory of justice, and short on practical specifications to fulfil the
common good and the principles of justice, solidarity and subsidiarity – with the aim of improved transparency and external supervision by ‘Civil Society.’

8. **Five intermediate principles will be suggested for discussion.**

1. There is a need for more training and competence programmes in the financial sector since it cannot be assumed that the requisite knowledge of the system is widespread. These programmes should contain more about the ways in which financial ethics is distinctive; and explanation of principles and specific market conventions.

2. In spite of the fact that the financial system exhibits many characteristics of interdependence, it does suffer from isolation from the wider society. The model of communitarian political economy and the social implications of religious ethics provide a good framework for commending ethical transparency and responsibility.

3. In the interest of transparency there should be more disclosure to shareholders and to the public.

4. The development of *forums* for discussing finance and ethic issues should include representatives from the financial sector, other economic interests, trade unions and welfare agencies.

5. There should be encouragement of a wider social understanding of classes, regions, and conditions which exist away from the City, finance departments and boardrooms.
APPENDIX A

Pre-tax Profit per Employee: Top 20 FTSE Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Pre-T Profits</th>
<th>No. of employees</th>
<th>£ per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Gas</td>
<td>£2.4bn</td>
<td>5,390</td>
<td>£445,200</td>
</tr>
<tr>
<td>Diageo</td>
<td>£2bn</td>
<td>22,333</td>
<td>£98,600</td>
</tr>
<tr>
<td>Barclays</td>
<td>£5.3bn</td>
<td>92,800</td>
<td>£56,900</td>
</tr>
<tr>
<td>Brit-Amer. Tobacco</td>
<td>£2.6bn</td>
<td>96,952</td>
<td>£26,700</td>
</tr>
<tr>
<td>RYL.DutchShell</td>
<td>£23.5bn</td>
<td>109,000</td>
<td>£215,600</td>
</tr>
<tr>
<td>HBOS</td>
<td>£4.8bn</td>
<td>55,384</td>
<td>£86,800</td>
</tr>
<tr>
<td>AstraZeneca</td>
<td>£3.5bn</td>
<td>65,300</td>
<td>£54,000</td>
</tr>
<tr>
<td>BT</td>
<td>£2.3bn</td>
<td>104,400</td>
<td>£22,400</td>
</tr>
<tr>
<td>BHPBilliton</td>
<td>£7.5bn</td>
<td>36m468</td>
<td>£206,000</td>
</tr>
<tr>
<td>GlaxoSmKline</td>
<td>£6.7bn</td>
<td>99,503</td>
<td>£67,600</td>
</tr>
<tr>
<td>HSBC</td>
<td>£11.1bn</td>
<td>268,471</td>
<td>£41,300</td>
</tr>
<tr>
<td>AngloAmerican</td>
<td>£3.3bn</td>
<td>195,000</td>
<td>£16,900</td>
</tr>
<tr>
<td>BP</td>
<td>£17.3bn</td>
<td>962,000</td>
<td>£179,800</td>
</tr>
<tr>
<td>Royal.BankScot.</td>
<td>£8.2bn</td>
<td>137,000</td>
<td>£60,200</td>
</tr>
<tr>
<td>Aviva</td>
<td>£1.8bn</td>
<td>54,791</td>
<td>£33,100</td>
</tr>
<tr>
<td>TESCO</td>
<td>£2.2bn</td>
<td>324,503</td>
<td>£6,900</td>
</tr>
<tr>
<td>Rio Tinto</td>
<td>£4.2bn</td>
<td>3,1,854</td>
<td>£131,900</td>
</tr>
<tr>
<td>LloydsTSB</td>
<td>£33.8bn</td>
<td>66,797</td>
<td>£57,100</td>
</tr>
<tr>
<td>Stand.Chartrd</td>
<td>£1.37bn</td>
<td>43,899</td>
<td>£31,200</td>
</tr>
<tr>
<td>Vodaphone</td>
<td>- £14.9bn</td>
<td>61,672</td>
<td>-£240,800</td>
</tr>
</tbody>
</table>

APPENDIX B

<table>
<thead>
<tr>
<th></th>
<th>COMPETITIVE</th>
<th>DIRECTIVE</th>
<th>COMUNITARIAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anthropology</td>
<td>Individualist</td>
<td>Collectivist</td>
<td>Partnership</td>
</tr>
<tr>
<td>Ideal-type</td>
<td>Profit-driven</td>
<td>Reporter</td>
<td>Co-operative</td>
</tr>
<tr>
<td>Co-ordination</td>
<td>Managerial</td>
<td>Central direction</td>
<td>Social groupings</td>
</tr>
<tr>
<td>Institutional</td>
<td>Market-linkages</td>
<td>Hierarchy-linkages</td>
<td>Cross-border Forums</td>
</tr>
<tr>
<td>Cultural Requirements</td>
<td>Commondification</td>
<td>Indoctrination</td>
<td>Ethical formation</td>
</tr>
</tbody>
</table>
Workable corporate standards are a central part of any effort to implement Corporate Social Responsibility or, indeed, Catholic social thought into the activities of a business enterprise. A corporation must interpret its contract with society—a contract perceived by society to extend well beyond legal regulation—and translate that into standards for action.

There exists a myriad of alternate strategies pursued by businesses, each reflecting a different view of the firm’s responsibilities. The literature and practice of Corporate Social Responsibility have addressed this responsibility from a diverse set of viewpoints. Catholic social thought is far more uniform, growing from a consistent set of beliefs and concepts. While more diverse, Corporate Social Responsibility has evolved to more specific guidelines and practices.

This paper argues that human rights is the most appropriate standard for meeting a corporation’s responsibilities to society within the market pressures and regulatory constraints of a capitalist system.

- The first section focuses on the concepts and applications of Corporate Social Responsibility in a market system.
- Part II briefly explores the many cross currents underlying our current thinking about human rights including the Catholic tradition and the United Nations Universal Declaration of Human Rights.
- Part III will be a critique of the United Nations Global Compact—the Compact itself as well as its implementation possibilities and progress.

I. Assessing Corporate Social Responsibility

Responsibilities of the business enterprise are framed by its social contract within the opportunities and constraints of the market system. Some are foisted on the firm as a forced response to pressures in its economic/political/social environment. Others are a creative response to anticipated changes in social judgments. A third strategy would be based on a moral position held by those within the firm. Specific strategies can be classified as:

1. The Basic Market Model: Maximize Shareholder Wealth:

   In a market society, corporations are created as fictitious persons with rights and responsibilities as defined in the law and activities directed by market pressures. Commodity firms are constrained to the basic market model by the intense competition in their product markets. These firms are forced to
maximize productivity and to continually test regulatory constraints. Many management teams in firms not subject to the competitive pressures of commodity markets perceive their role in these rigid economic/financial terms and target strategy to the pursuit of shareholder wealth in a basic market model.

2. Extension of the Basic Model: Ensuring Long-Term Enterprise Sustainability:

Increasingly, managers are becoming more sensitive to gradual shifts in social preferences and are extending the market model to strategically position their firms today for the future time when these preferences will be reflected in the marketplace and in governmental regulation. Two points: These long-term strategies are in addition to meeting the productivity requirements of the basic market model and, beyond that, gaining some freedom of action within the pressures of the product/service markets, regulatory constraints, and the assessment of the financial markets. Second, it is important to identify these shifts in current social preferences before being judged negatively in the future.

3. Normative Departures from the Market Model: Doing the Right Thing:

Societal values may well be different from those held within the firm. In these cases, based on senior officer commitment, or in dialogue among the board, management, and employees, the firm can opt to pursue its own value set as a guide to strategic positioning.

In today’s environment, management must compete beyond the short-term product and financial market pressures (#1) to position itself for long-term enterprise stability (#2). Management teams that opt for normative departures from the market model (#3) must understand the dangers of losing financial viability as resources are committed to these efforts.

Most, or all, of the CSR literature maps onto the two alternatives of ensuring long-term sustainability or normative departures from the market model. While it can be driven by normative determination, most CSR literature is opportunistic in the sense of ensuring long-term sustainability. Groups such as the Global Reporting Initiative, the Fair Labor Association, or the United Nations Global Compact (among many others) work to assure that corporations serve the needs of society.

Catholic social thought accepts, and even endorses the market model, but only under conditions where the institutional and individual participants in that market are directed to assure the dignity of every person affected by their action and to achieve the common good. A plethora of vigorous NGOs motivated by the Catholic tradition work to press business and government toward these ends. In this sense, the operationalization of Catholic social thought is firmly rooted in #3.

From the managerial perspective, it is a matter of self interest to position firms today to meet the social preferences of tomorrow (#2). To operationalize this goal, management needs a reliable
barometer of social preferences judged to be broadly legitimate across segments of society, and across cultures for the international and multinational firm. That barometer is human rights as specified in the ten principles of the United Nations Global Compact.

II. The Nature of Human Rights

The idea of human rights is globally the most broadly accepted indicator of social preferences. While the idea is universally appealing, specification is troublesome—particularly with the different views in each society and the diversity across cultures.

The Universal Declaration of Human Rights

The cross currents of human rights concepts came into focus with the initial discussions for the United Nations in 1945 as a reaction to the brutality of World War II. In the U.N. Charter, the principle of human rights appeared several times in the text affirming the “faith in fundamental human rights,” and the promotion of “universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.” A definition in terms of specific rights remained for the appointment of the Commission on Human Rights in June 1946. The Commission was assigned the responsibility to propose an international bill of rights as well as a plan for implementation—a daunting task when the clash between the Soviet Union and the West had been openly acknowledged by both Churchill and Stalin.

It can be argued that the Declaration along with the dialogue and applications it has triggered is the most legitimate international social norm in history and one that any business looking for a strategy of enterprise sustainability should emulate.

Human Rights in Catholic Social Thought

Contemporary views of human rights have deep roots in natural law and liberal rights theory. The Catholic church has been intimately involved with both: as an integral component of natural law over the centuries, and as a tradition at odds with human rights as developed in liberalism. Although natural law theory clearly lays the foundation for a theory of rights, particularly with its focus on obligations, individual human rights have not been an explicit part of this tradition. As for liberal rights theory, the Church has had two reactions: one political, the other philosophical. The political reaction was to those who directed their liberal convictions against the institutional Church as well as to governments beginning in the 18th century. Second, the liberal emphasis on individualism and the general lack of interest in the common good was seen as contrary to the natural law tradition of the Church.

Steinfels captures the political dimension, “The drama begins when the French Revolution tries first to tailor the church to a revolutionary pattern and then, having fallen short in the effort, attempts to replace Christianity altogether. The church casts its lot with counter-revolution. During the restoration, the papacy renews and reinforces the bonds between the throne and altar with a series of concordats.”
Toward the end of the 19th century, Leo XIII broke with the church’s resistance to Western political and social development to initiate a policy of participation with the publication of *Rerum Novarum* (1891). This began what Hollenbach describes as “one of the most dramatic reversals in the long history of the Catholic tradition” where the Catholic Church has now become one of the leading advocates of human rights on the world’s stage.

It remained for John XXIII in *Pacem in Terris* (1963) to boldly set forward the most powerful and thorough statement of the Roman Catholic understanding of human rights in modern times. He drew on language from the Universal Declaration, outlining a set of rights similar to those in the Declaration. Praising the Universal Declaration, he stressed the need for a supranational authority to ensure global peace.

John Paul II subtly extended the political reach of the church and championed human rights. He supported the Universal Declaration and was involved in the activities of the United Nations. In his global travels, he called attention to the abuse of human rights across the world.

In *Centesimus Annus* (1991), John Paul II addresses market economies. Their efficiency is emphasized (as a reaction to the experience of Eastern Europe). Here, the Pope again levels the charge against capitalism, (as he distinguishes capitalism from market economies) which results in an emphasis of “having rather than being.”

The activities of NGOs in the Catholic tradition reflect this papal determination.

III. The United Nations Global Compact

The U.N. Global Compact initiative (UNGC) evolved from a challenge posed by Secretary-General Kofi Annan to the business community at the World Economic Forum in Davos in January 1999. “I call on you--individually through your firms, and collectively through your business associations--to embrace, support, and enact a set of core values in the areas of human rights, labor standards, and environmental practices.”

A year of intense interactions among chief executive officers and business associations, nongovernmental organizations, labor unions, and four U.N. agencies led to the formulation of nine principles (with a tenth on corruption added later). Business is invited to embrace these principles incorporating them into their strategies and decisions.

The Global Compact is a voluntary initiative with no framework for legal enforcement. There is no screening of firms that join the Compact and no U.N. endorsement. Member companies are asked to become participants in a set of embedded networks working toward the consideration of human rights in business activities.

The UNGC draws its legitimacy from the Universal Declaration, the follow-up conventions, and agency activities. It has encountered resistance from some U.N. agencies with long traditions of distrust and determination to control the activities of multinational corporations, particularly in
developing countries. Many NGOs are critical for the same reasons. Of the over 2,000 participating enterprises, U.S. corporations have been slow to sign the Compact due to a concern over the legal liability that could be incurred from the declared commitments and the anticipation of renewed U.N. pressure to encourage unionization (3 percent of U.S. Fortune 500 companies have joined the Compact). European firms are far less sensitive to these concerns (40 percent of European Fortune 500 companies). Still, networking efforts of the Compact are extending its reach far beyond member companies in the business world with increasing numbers of NGOs and even communities participating.

From the managerial viewpoint, the UNGC is a set of social principles broadly perceived to be legitimate that are useful in operationalizing the goal of ensuring long-run enterprise sustainability. The process is to translate these principles into a set of standards that become the uniform rules reflecting the uniqueness of the firm and its environment, which then apply across the multinational enterprise network. Given the uniqueness of individual operating environments set against the network standards, the tension of universality versus cultural relativity moves from philosophical debate to decisions relating to specific actions. This is the challenge of implementing the UNGC.

IV. End Notes

It has been argued that the UNGC, drawing on the Universal Declaration, is the most broadly accepted and legitimate social credo for business in the world. In this way, it becomes the most effective standard for a firm pursuing a strategy of long-term enterprise sustainability. Each corporation participating in the Compact needs to demonstrate a commitment to the Compact if it is to be judged as legitimate. On the macro basis, this means involvement in the networking activities of the Compact’s Learning Forum. In the operating activities of the firm, it is critical to reflect the ten principles of the credo. This entails the interpretation of the general principles into actionable, uniform guidelines for the multinational enterprise network including its subcontractors, and a corporate culture that encourages sensitive application by the local business unit.

Do not quote without author’s permission.
The nature of the firm: does it really matter?
Surprisingly enough an unequivocal definition of enterprise – used here as synonym for “company”- is highly problematic if not impossible. Economists tend to define the enterprise as the organisational locus where labour and capital combine in value adding activities, sociologist look at the enterprise as a nexus of interpersonal cooperation, financiers as a locus where return on investment is achieved, lawyers as a “moral person” with its rights and obligations. The reason of this difficulty lies in the fact that neither a material nor a formal definition suffice to do justice to the complexity of the enterprise. In order to so, the teleological dimension has to be brought into the picture but today this aspect of the enterprise is highly debated and every day more debatable.

Friedman’s well known normative statement “profit is the only legitimate purpose of the firm” is contradicted by empirical surveys of entrepreneurs which show that the main motivation driving entrepreneurship is the search for autonomy and self-fulfilment rather than financial rewards. This indicates how open and broad is the contemporary lack of agreement on the purpose of the enterprise. Adding to the debate, in Centesimus Annus (§35), John Paul II says “The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. But profitability is not the only indicator of a firm’s condition. … In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society.” Is he speaking in positive terms – implicitly referring to the “nature of the firm” – or is he expressing a normative Christian view?

Like other forms of social life – including family and political community – the enterprise appears today more clearly than before as an unstable and heterogeneous reality, evolving in interaction with or in response to changes in other realms of social life (institutions, mentalities, morality, etc.), differing in time and space. This suggests that the same word is used today to describe a wide rage of social actors, differing in form and purpose. The main dividing line runs between the enterprises whose purpose is to preserve harmony and well-being among its members seen as a community and these that are used as instruments for the sake of third parties, including the providers of financial means. This distinction poses two questions (a) what are the frontiers of the enterprise, if there are any and (b) who has the teleological legitimacy within the enterprise.

According to the “stakeholder’s” view, the frontiers of the enterprise are vague to include all parties - stakeholders – that directly or indirectly contribute or benefit form the value adding activities of the entrepreneurial endeavour. Correspondingly, the fuzzy perimeter of the enterprise encompasses the clients, the suppliers, the tax authorities and also the providers of financial means. In the stakeholder’s perspective, all of them have a legitimacy claim in defining the objectives of the enterprise; the role of the management and of the governance rules being the balancing of these often contradictory views and interests. In other words, the stakeholder’s perspective views the enterprise as a broadly open system in which the distinction between the internal and the external is almost meaningless. In the shareholder’s value perspective, the enterprise is ultimately seen as a bundle of residual property rights on assets which belong to the shareholders. The duty of the management acting as trustees of the shareholders is to increase the value and the returns on these assets. The enterprise, in this
approach, is just a tool used to achieve the shareholder’s value agenda which is clearly external to it. The CST perspective, spelled out in Centesimus Annus shares with the stakeholder’s approach the view according to which the telos of the enterprise is internal to it but diverges on the issue of the frontier of the enterprise which the CST sees clearly as limited to the “community” of those that effectively make their living out of its activity.

The epistemic status of the above discussion remains unclear: is it a normative discourse or a debate based on empirical findings? In other words, does the enterprise exist as an independent and autonomous social reality or is it a man made reality governed by a set of minimal formal (legal & accounting) rules of coherence which leave an important margin of manoeuvre to those that actually make the enterprise? The evident heterogeneity of shapes that economic activity takes, clearly suggests that the enterprise is a loose “form” that can accommodate to a variety of situations and expectations. In other words, the discussion on the “nature of the firm” is bound to be misleading. Each and every enterprise is a peculiar outcome of a complex encounter between the capabilities, motivations and visions of those involved, the perceived opportunities and the formal constraints. In conclusion: what a given enterprise actually is – a community, a financial instrument, or a loose association of stakeholders – depends heavily on its objectives which are embedded on one side in its structure inherited from the past (the so called “path dependency”), but on the other in the vision and motivation of those that are presently involved in it.

Does form matter?

In developed economies, roughly speaking, one third of the economically active population is involved in micro-enterprises which include the self-employed, another third with small and medium-sized enterprises (10 to 250 employees) and the remaining third with large and very large enterprises. As many medium sized enterprises are affiliates, they are de facto part of a much larger whole. Thus, in consequence, in OECD countries, approximately one half of the active population is employed by large and very large firms, while the other half is working within much smaller entities.

The problem explored here is to know whether a relation exists between the enterprise’ size and the spirit that governs it? Three aspects of the question will be addressed: the legal form of the large enterprise, its relation to the financial world and its method of growth.

The “joint stock company”

Most of the large enterprises are – legally speaking - joint-stock companies. By the virtue of law, a given amount of money can be turned into a “legal person”. Like any other person, such a company is subject to rights and obligations, it has namely the capacity to borrow money and to hire labour. The initial (and ultimate) owners of money are allowed to act “on behalf of their capital” to defend and increase it. They are allowed to remain in the dark, if they choose so and to change as often as required, The fact that in a joint stock company, capital is allowed to hire labour suggests that the former is given pre-eminence over the second; unlike in a partnership where the moral person is an emanation of the signatories of the pact who are the ultimate respondents in case of litigation. The anonymity of the transient shareholders coupled with their freedom to exit at any time, suggests that their approach to their holdings is purely instrumental and utilitarian.

Although the joint stock form is frequently used also by smaller entities, it is the prevalent form of large enterprises. The revolutionary idea behind this invention is its particular convenience for pooling together very large amounts by raising smaller ones from unrelated people. By the virtue of this legal artefact, large enterprises were given the appropriate form
that would make their growth possible. During the last 150 years, many of them have grown to unprecedented sizes. Even if the same joint stock company is used by smaller firms, the main reason here is not so much the pooling of capital but rather risk management. As long as owners of capital are also working in the enterprise, the notion of return on capital has a more fiscal than economic dimension; things look differently when owners and managers become different persons.

**Earn a profit vs. earn a return on capital**

Very large enterprises are listed on stock exchanges which makes trading in their shares more liquid and less costly. It implies that their shares are less risky investments than those of not-listed companies. Listed shares in the hands of anonymous shareholders make exit easier. Present shareholders expect to sell at a premium value, thus they require the management of the company to increase the value of the firm, i.e. provide additional results or information that would help the potential shareholders to increase their bidding price.

In such a configuration, the management of the enterprise becomes directly vulnerable to pressures of the momentary shareholders to drive the company in a direction that will please the potential shareholders, in consequence of which the price would increase in a steady way. This means that the share value stands as much on the overall past performance of the enterprise, on its present revenue and on the future perspectives about its sustainability. In order to keep present shareholders and attract new ones, listed companies are in harsh competition against each other, irrespective of countries, economic sectors and products. Although 50'000 companies are listed on world stock exchanges, the most liquid segment of the world capital market is made of – at the highest – 5000 largest companies representing more than 80% of the total capitalization.

**Motivating the management**

In listed companies, managers are brought in by the shareholders to help the company achieve its goal: allow share-value to grow. In order to gain obedience from these trustees – which unlike stewards who are idealists – are mercenaries, shareholders tend to link the remuneration of top managers to the performance indicators such as the share price. By doing so, interests of both parties – management and shareholders – are aligned and the teleology derived form the shareholder perspective imposed as the only legitimate on the enterprise.

**Financial success requires growth**

A listed company is impatient by definition. It has to continuously demonstrate that a new shareholder buying into its shares can reasonably expect to earn on top of his portion of the operating profit also a capital gain due to an event that was not expected, i.e. that was not “in the price”, at the moment he bought in. In order to deliver on such expectations, the top management has to re-invent permanently and make credible the “radiant future” of the company. These strategic efforts will draw on three main lines: diversification, innovation and re-engineering of the business model which will be used so as to insure increased profits and returns on capital either through growth or through efficiency gains.

Most of large and very large companies are bound to grow quickly, more quickly than their own capacities would allow, thus they are growing by acquisitions despite the fact that many of them are set to disappoint and under-deliver on their promises.

**Does size matter?**
Most of large enterprises are listed joint stock companies. But are they really companies, or just elements of a much larger system of which the financial logic of capital gains and shareholder value is ultimate *spiritus movens*?

A “good company” in the sense of CST is above all a community of those that make a living out of it. Community means a shared and common objective and a sharing and solidarity among the members as opposed to those that are outside. The instrumentalisation of the very large enterprises by the financial logic of shareholders who are expected to abandon the stake at the earliest sign of discomfort, shows how narrow are the limits of community.

The internal complexity of each of these enterprises makes it impossible to understand and apprehend by any of its members except the very top management. This means that the feeling of belonging can only be symbolic. This however would happen only if there was a mutual relation based on trust – this is less and less often the case, even in countries such as Japan where the lifetime employment was a norm a decade ago.

The multiplication of “opting out” strategies by which members of the community are looking for an opportunity to break a faithful relation when they can gain an advantage is another indication of the falling apart of communities. This behaviour begins to blossom in smaller enterprises and contributes to break them apart.

Can a Large Company be also a Good Company? In the last part – heavily drawing on P. de Varax master thesis at the Lateran University - we confront the dominant characteristics of global and large enterprises with related principles of CST and show, as a result, that, because of their size the contemporary large enterprises, for structural reasons, do not correspond to what CST refers to as “enterprise”. They are rather systems geared to extract return on capital.

**Conclusion:**

Can CSR help transforming large enterprises into “good companies” in CST sense? In this question, the jury is still out, however the capacity of CRS principles to transform the managerial practice in large enterprises seems even more limited than the conversion capacity of CST.
LEADERSHIP—HOW CATHOLICS CAN BE SUCCESSFUL LEADERS IN BUSINESS AND TAX-EXEMPT ORGANIZATIONS

By Daniel J. Steininger

It is the thesis of this paper that leaders can install management practices that will ensure an enduring institution that reflects the best in Catholic social tradition and Catholic social teaching. An organization in which a leader installs those various management systems and practices is one that is likely to endure and create conditions for success in the marketplace whether it’s a business entity or a non-profit.

The underlying and operative thinking is based on John Paul II’s groundbreaking encyclical *Centesimus Annus* that it is the dignity of human beings realized in community with others that should be the criterion to define all aspects of economic life.

Therefore, a leader’s goal will be to create a community dedicated to the common good of the individuals associated with that community.

HOW IS THIS ACCOMPLISHED?

1. **Board of Directors**

   It starts with the Board of Directors. They are the conscience of the corporation. There is vigorous debate and a full airing of issues at the Board level. There is a drive for consensus so that issues are legitimately aired and fully discussed with adequate information being provided before every Board meeting.

2. **Feedback**

   There is an inherent bias against sharing negative information and problems with those in leadership positions. Any leader that claims that he or she has an open door policy is simply giving lip service to a reality that does not exist. There has to be a systematic way to feedback negative information and problems to the leadership of an organization.

   Therefore, it is critical that various forums be created where anonymous feedback can be given to top management on an ongoing, systematic basis and top management be required to respond in a public fashion. You might say if this were a family, it’s getting “issues out on the table.” This paper will describe how those institutional feedback mechanisms can be created.
3. **Compensation**

This needs to be market-driven. Compensation is critical because so often leaders use compensation to assert their will rather than recognize that compensation should exist to respect the dignity of individuals.

This paper will go into the details of a market-driven compensation system that takes the fear out of salary setting and reward systems.

4. **Decision Making**

Catholic social tradition calls for subsidiarity in moving the decision-making process down as far as possible into an organization. How is this accomplished? This paper will explore consensus management and using facts as guideposts for decision making rather than what people “think.”

5. **Hiring**

Hiring is critical to the success of creating a community. What are the best practices for creating a hiring system that will bring on the best employees capable of promoting a community?

6. **Terminations**

This is a fact of life in any profit or non-profit organization. These can be done in a way that is sensitive to the Catholic social tradition.

7. **Recognition**

There are systematic ways of recognizing people that do not create more losers than winners. This paper will outline those practices and recommend an appropriate approach that has proven successful at Catholic Knights over the years.

8. **Status Symbols**

This may seem trivial, but it becomes an important part of any corporate culture. Status symbols can be used to destroy a community without even knowing the implications of adopting status symbols.
9. **Motivation**

All management practices installed by the leadership must be based upon the assumption that people are intrinsically motivated versus extrinsically motivated. This paper will outline the practices necessary to enhance and reinforce intrinsic versus extrinsic motivation.

10. **Customer Feedback**

How does a leader help create loyal customers that will sustain the enterprise? How can that be measured? What systems need to be created to get customer loyalty? This paper will address this issue.

11. **Quality Tools**

In order to enhance better decision making and improve quality, certain tools need to be employed whether a service is rendered or a product is produced. This paper will lay out some of the best known tools that will bring about quality results and enhance the effectiveness of the organization. It will also outline the training program necessary to bring that about.

12. **Training**

This paper will address issues of training and the kinds of tools that need to be conveyed to all employees if they are to bring about a successful institution that provides quality to its customer base.

13. **Vision**

A lot has been said about vision and how it’s brought about. In fact, vision is an important part of how leadership functions. What is the role of leadership versus the Catholic social tradition that would best suggest the way to create a proper vision so that people work towards the common good of the organization?

14. **Addressing Issues of Poverty and Injustice**

Every organization would like to do well. They may not be able to afford to do it; however, an organization should reflect what activities it can engage in consistent with its brand promise that will promote concepts of economic justice and will address poverty and other problems facing individuals who are brothers and sisters created in the likeness of God.

Catholic Knights created a strong brand identity by promoting through its mutual fund, the Catholic Equity Fund, respect for the dignity of all human life starting with conception;
promoting just working conditions for women and children in Third World countries; attacking the use of the internet for pornography targeted at minors; and creating an awareness of the need to create fairness in compensation practices by opposing excessive CEO pay and greed. These all can be done in the context of promoting a good organization and the best of Catholic social teaching and, at the same time, reinforce the brand promise and help promote a successful organization.
Small and Mid-Sized Businesses: As Local as CST and CSR Get

Vincent F. Maher, Joseph W. Ford and John DeBiase

When most people are asked to render an opinion about corporate social responsibility, their responses are not infrequently directed at the multinational Microsofts, Pﬁzers, Johnson and Johnsons, Nabiscos, Intels and Exxons of the world rather than at the businesses that comprise most of the world’s economies, i.e. local small and mid sized businesses; family businesses; and sole proprietorships.

It is the local business person or local company to whom most people turn when something needs to be done. It is to these sources that company purchasing agents or facilities managers will most often turn and to whom business will be offered rather than to “the big corporations” that are around every corner. Given our druthers, we usually like to see the local guy get the job or make the sale rather than the multinational. Why? We tend to know him; his wife; his kids; his parents; or his siblings. We golf or bowl together; maybe he coaches the kids’ soccer team or sings in the church choir or community theatre company etc. Ultimately, we want to take care of our own. It is a basic instinct of business. It is personal. It has a face. If it were not so, why do so many huge corporations portray themselves as local and personal neighbors insisting that their sales teams make the effort to engage in hand shaking and face time with their clients or in sponsoring community charities? Surely business could just as easily be conducted electronically and at a distance. Why bother? Because ultimately, business will continue with those with whom we have more than a passing and anonymous relationship. Business is ultimately about building and maintaining a community. Sustained business, no matter how big it becomes, is always about the local economy.

This paper will examine three business environments and present actual cases of two local NYC businesses—one an ongoing business that provides apartment housing to functionally independent seniors of moderate financial means, and the other a ground up business offering continuing life care support to middle aged and senior developmentally disabled people. The third business discussed in the paper is that of a ﬁne arts company founded by a physically handicapped religious brother.

The cases discussed in this paper ultimately demonstrate that Catholic Social Thought and Catholic Social Teaching derive from the mandate of Jesus that we serve one another as He served us and that we act on the conviction that all are truly equal in His sight. It really is that direct and that simple.

Making it happen in polyglot and multileveled political and faith environments is a challenge for all—but it is a challenge that can be met by staying focused on the mandate that drives the task at hand. The cases discussed in this paper prove that the task really can be accomplished.
Case 1: National Theatre Workshop of the Handicapped

Since the theme of our paper is “The Good Company” as exemplified in the small or medium-sized organization – as local as it gets – The National Theater Workshop of the Handicapped (NTWH) reflects several aspects of Catholic Social Thought (CST) and of Corporate Social Responsibility (CSR). First, it represents, as do all our examples, the key principle of subsidiarity – that action should be taken by the organizational or governmental structure closest to the need. A number of papal documents have emphasized this guideline. Secondly, the NTWH resonates powerfully with the directives of the National Catholic Council of Bishops in the United States in their 1986 pastoral letter on the economy, Economic Justice for All. This episcopal document noted that an economic system should be judged on what it does for people and on how people participate in it. A salient feature of NTWH which sets it apart from other programs for the disabled is that it is not based on a medical model, but rather on a full professional basis. A subtle but important point: it is called the National Theater Workshop of the Handicapped, not for the handicapped.

With regards to CSR, the organization manifests equally impressive characteristics. The CSR movement in the United States had its beginning in the 1953 seminal book of Howard Bowen, The Social Responsibilities of the Businessman. Modern sensibility sees the title as quaint and gender-specific, but it was 1953 and it was a catalyst. CSR developed into the dimensions of corporate charity and stewardship; the latter persuaded companies to become public trustees, not merely private ones, and companies have provided generous and continued funding for the Workshop. In addition, the prominent position paper, Social Responsibilities of Business, published in 1971 by the Committee for Economic Development (CED), a conservative and business-oriented research group, introduced the notion of three levels (or “rings”) of business responsibilities: these were an inner ring involving the direct well-being of the firm; a middle ring including the firm’s responsibility to all those groups with which it has contact; and an outer ring covering broad societal issues that have little or no impact at present on the organization.

Our investigation and analysis, therefore, of the National Theater Workshop of the Handicapped, rests comfortably in several frameworks critical to the concept of “the good company.” It also suggests that the dialogue between Catholic social teaching and corporate social responsibility is underway and developing productively.

Case Two Fort Schuyler House, Bronx, NY

In the early 1970s, an activist Presbyterian clergyman and an ecumenical group of committed Christian laypeople collaborated in a unique fashion with both the Federal and NY State governments to finance, build and provide moderate income housing for working or retired adults age 55 and older. Prior to this construction, no facility of this kind existed in the greater NY region. Any available facilities were nursing homes or parent/child private housing arrangements. There was a need for such a facility in the 1970s and, if anything, there is more of a need in the 21st century as the population lives better and longer.
The facility has had, since its inception, a voluntary board of directors and an executive director hired at the behest of the Board who serves the needs of the House on a daily basis. It is the responsibility of the executive director to plan and oversee all operations and all personnel and to keep the building true to its founders’ mission. The model has worked well for over 30 years.

A year ago, one of the authors of this paper was named executive director—only the fifth since its opening and the second Roman Catholic—of the facility. After taking care of certain and important immediate facility capital and personnel needs, the director realized that more than housing could be effectuated in this environment. This point was driven by recurring themes in Matthew’s gospel. Specifically Matthew 20:1-16 wherein the story is told of the day laborers who begin work at different times of the day but who, at day’s end, are paid the same wage. The story is about the owner’s generosity, the dignity of work, and properly utilizing available resources to get the job done and in a timely fashion. Ultimately the story speaks to the nature of business management and illustrates what can happen when one who is expected to act or to function in a certain way, does not do so but instead changes the rules that traditionally govern relationships between owners and workers and becomes a catalyst of social change.

Taking that as a cue, the author looked at the staff—most paid at low, unskilled worker wage scales—and at how, in addition to wages (remember, this is a quasi public, non profit organization with no endowment), they could be assisted. The answer soon became obvious. The author entered into a first of its kind partnership with the local Board of Education, Division of Adult Education to provide classes on site wherein those without high school diplomas could complete their high school education. Workers are released from their tasks to attend classes and are paid during that time. This served multiple purposes: the employee got to complete a never completed high school diploma; the worker’s completion of the work and the attainment of a diploma set an example to the worker’s children about the importance of remaining in school and finishing the diploma; it enables the employee to break a continuous family cycle of poverty and dependence on municipal services, and it instills pride in the worker and in the worker’s family. The benefits to the employer are many and include: decreased sick calls; greater pride in a work product; personal pride in the employee; elimination of personal antisocial behaviors (alcohol and drug abuse); children performing better in school and even, somewhat unexpectedly, improved marital relations in two situations!

In addition to high school completion programs, other educational offerings have been implemented for those with high school diplomas. These include computer and nurse’s aide training; and preparation for certification in phases of building and facilities management such as fire safety, boiler maintenance and facilities operations.

**Case 3  Third Age: Residential living environments for senior adults with developmental disabilities**

The Developmentally Disabled population is approaching the average life expectancy of the general population for the first time. This is a relatively new phenomenon brought about by advances in medicine along with improved understanding and care of individuals with
developmental disabilities. By 2010 almost 40% of all Developmentally Disabled individuals will be at or over the age of 50. This equates to approximately 137,000 individuals in New York State alone. There are too few established Skilled Nursing Facilities (Nursing Homes) that have the where-with-all to serve this population with the care and dignity they deserve. There is a specific need then, for facilities to care for the aging developmentally disabled population.

In many instances the housing in which these individuals currently live is not suitable for aging persons. All too often narrow stairways, lead to narrow hallways, and rooms that may or may not be wheelchair accessible. The cost of renovating these sites is neither cost effective nor is a positive result guaranteed.

This project proposes to build and develop a paradigm similar to an Assisted Living model, whereby individuals with developmental disabilities who are no longer able to remain in their current housing situations will be afforded the choice of living in this complex. The complex will include the services necessary to permit them to age with dignity, which will include the staffing and resources to cater to changing physical, emotional and health needs. It will also make provision for dignified and comfortable end of life care. Third Age Living Options will serve developmentally disabled seniors, in an aesthetically desirable, comfortable, fully accessible and functional facility.

**Conclusion**

These disparate applications are united by the simple fact that individuals, in each case motivated by an understanding of the Gospel’s call to social justice, challenged the status quo and changed the face of the corporations which they direct proving once again that Catholic Social Justice and Corporate Social Responsibility is as local as local gets.
Richard Ryan and Tim Kasser studied the American Dream, and discovered two distinct sets of aspirations directing people’s lives towards personal well-being. The first of these refers to the “extrinsic aspirations” of self-acceptance/autonomy and financial success/money (Kasser, 1993, 411). Their assumptions and conclusions suggest an attitude of competitive self-interest motivated towards success that enlists the values of selfishness and ambition as behavioral determinants of these extrinsic aspirations. Together, these aspirations and behaviors imply a broader, overriding worldview identifying well-being with respect to individual independence.

Kasser and Ryan also attribute “intrinsic aspirations” to the American Dream, and identify these as affiliation/relatedness and community-feeling/helpfulness (Kasser, 1993, 411). These aspirations imply a quite different combination of behavioral determinants: an attitude of cooperative concern for others, motivated towards happiness, and enlisting the values of compassion and altruism. This combination of aspirations and behaviors recommend another worldview identifying well-being with respect to relational dependence.

Kasser recommended that scholars and practitioners become more attentive to the intrinsic aspirations, and “help increase intrinsic and decrease extrinsic aspirations” by recognizing the personal and social implications of contributing to the status quo, especially with respect to work and business. He described American capitalism’s tendency to wreak havoc on personal and social well-being by promoting longer working hours, presumably at the cost of relatedness and helpfulness. He urged less emphasis on the motives, attitudes, and values of the rationally-driven, individualistic extrinsic aspirations and more on those of the emotionally-driven, relational intrinsic aspirations; for, in his words, “the well-being of the man, his family, and his community.”

Trevor Cole focuses on two difficulties arising from appeal to either the extrinsic or intrinsic aspirations. Cole cites Thomas Hurka as he addresses difficulties arising from adherence to the intrinsic aspirations, and describes how easily the demands of relatedness and helpfulness can lead into unethical behavior. "Once the self-interested people start to cheat," he argues, "that affects the people who believe in fairness, because they're prepared to do what's right only so long as other people are doing it. And so they start to cheat" (Cole, 2005). While focusing on Kasser and Ryan’s intrinsic aspirations may contribute to personal well-being by promoting relational affiliation, it may also encourage and support unethical behavior. It betrays a tendency to go along with the crowd, to be accepted (Callahan, 2004).

Cole also cites Dennis O’Hara’s critique of extrinsic aspirations and his concern with how the principles of rational economics contribute to unethical conduct. “We’ve fallen in recent times into this notion that there has to be a single right answer,” he claims, adding that “It's as if we want a catechism and everything's going to fit into this catechism.” Moreover, that catechism “has to do with the bottom line - what's right for the shareholders is, de facto, right” (Cole, 2005). For O’Hara, a worldview grounded in the extrinsic aspirations of self-acceptance/autonomy and
financial success/money provides a platform for unethical behavior even as it encourages economic well-being.

O’Hara’s and Hurka’s insights call into question the American Dream itself. O’Hara recommends another perspective. “‘When people convince themselves there is no higher accountability,’” he claims, “it's easier to believe the universe is essentially meaningless. Once you reach that conclusion, the concept of the common good falls away, and it's a short leap to deciding that the only purpose to life is one's own personal gain and pleasure” (Cole, 2005). That loss of sensibility for “the common good” is caused, argues O’Hara, by an incremental loss of a religious sensibility or consciousness. "In the old days," he explains, "we had what we called 'the God of the gaps.' Whenever there was a gap in our knowledge—that was God. As science progresses you eventually fill the gaps and then, 'Oh, there's no God'" (Cole, 2005). He intimates that a third perspective is needed to alleviate this limitation, and recommends a third worldview, a third way of viewing the world through the lenses of another set of aspirations with its own behavioral determinants.

Appealing to a spiritual perspective, it is feasible to recommend a set of “transforming aspirations” to broaden appeals to individual independence and relational dependence to include consideration of universal interdependence. Further, why not address the underlying attitude, motive, and values, of these “transforming aspirations” as reflective of spiritual transcendence accompanying commitment for delight, realized through wonder and detachment? These aspirations and behaviors describe a third worldview identifying individual well-being with respect to universal interdependence.

These three perspectives—the rational, the emotional, and the spiritual—represent three different sets of aspirations and behavioral determinants of personal well-being which comport well with moral intuition, the innate sense of justice and right that we bring to bear on our decision-making processes and our behaviors, and which guide our actions in relation to others.

The first focuses on the person as primarily autonomous and independent, as located at the very heart and center of the universe, and as asking the question “what can you do for me?” This question suggests that I want, for example, clean drinking water for myself. The second identifies the person as primarily concerned with, and directed towards others, placing the other at the center of the universe, asking “what can I do for you?” This means that I want clean drinking water for my family, friends, and people in my immediate experience. The third perspective, the spiritual, is focused on “something other” than oneself, other people, and nature, and assesses human experience with respect to that transcendent other, asking “what can we do for that ‘something other’”? This means I want clean drinking water. Period.

These three perspectives are not confined to psychological and philosophical scholarship. They are evident in popular modern music, specifically in Bruce Springsteen’s music and lyrics. They also surface in American business where they are readily discernable in David Ferrairo’s management of a small New England manufacturing company.
Ethical discourse need not always be pursued through grand theories or comprehensive models. It can also be pursued from the direct testimony and witness of people who have struggled with these concerns throughout their lives and who, gradually and incrementally, refine their ethical thought and practice with appeal to rational, emotional, and spiritual aspirations and behavioral determinants. We can see ethics deriving from action and theory emerging from praxis.

Bruce Springsteen’s 1995 *Greatest Hits* collection is an autobiographical reflection on changing moral and ethical sensibilities. He reveals his own moral development, moving through three periods or stages as he searches for personal and ethical well-being: first, the aspirations and behavioral determinants of individual self-interest; second, those driven towards affiliation with people of his own place and time; third, an appeal to universal transcendence readily translated into an appreciation of the common good. He seems to be asking, ‘What has the American Dream done to me?’ and ‘What can I do about it for myself?’

David Ferrairo, entrepreneur and founder of DynaChrome, a small metal-plating company, illustrates the transformative role played by organizational leaders who are committed to combining a focus on people, planet, and profit in their daily lives. Of the same generation as Springsteen and from a similar, working class background, Dave has experienced a similar development. Since 1990, Dave has grown his own opus, suffered defeats, and risen again. His development, and that of his organization, parallels the three levels expressed above. Beginning with the self-interest necessary for an entrepreneur to succeed, Dave moved DynaChrome through successive shifts from affiliation with individuals and groups to a caring concern for the environment and for others as yet unknown to him. He seems determined not to succumb to the temptations of the traditional American Dream.

In the first song of his *Greatest Hits* album, “Born to Run,” Springsteen alludes to the American Dream, but with a graphic sense of urgency, “In the day we sweat it out in the streets of a runaway American Dream.” In one song, “Badlands,” he sings of “trouble in the heartland,” seeing himself as “caught in a crossfire” between “the same old played out scenes” of an unidentified “dream,” to which, he claims, we can only succumb, resigned to “live it every day.” Springsteen wants not only to confront his own alienation and isolation, but also to escape it.

The strong suggestion ensuing from this first period of Springsteen’s music, as well as from his moral development, is the realization that this combination of aspirations and behaviors reflects the formative influences of his experience, and has become inescapably determinative of his identity. Another strong implication is that individual self-interest is not only an indispensable dimension of personal identity, but, accordingly, an attribute of personal well-being worthy of pursuit.

Financial independence presents the economic rationalization for a firm's existence. Why would anyone go to the effort of starting a business and not care about financial returns? This interest in returns is not really a first step in development; it is a necessary component of organizational success. However, the interest in returns must preclude other concerns in order for a business to be viable, and in such viability lies the lure of the American Dream for the entrepreneur. As Bruce Springsteen so eloquently put it: “Poor man wanna be rich/Rich man wanna be king/And a king ain’t satisfied/Till he rules everything.”
There is nothing inherently wrong with pursuit of the American Dream’s extrinsic aspirations; nor do we suggest that there is anything wrong with pursuit of the attitude, motive, and values required of their realization. The danger arises from the limited experience, insight, and perspective of the tunnel-visioned entrepreneur that precludes him from conceiving of alternatives to ROI and extrinsic rewards. When focused internally and on individual concerns, the entrepreneur cannot envision how pursuit of these extrinsic aspirations may contribute to humanity and to personal well-being.

Recognizing that he is entrapped by his own self-interest, Springsteen begins to pursue a different focus encompassing a different worldview. He turns to pursuing concern for others, rather than for himself, as a guiding determinant of personal well-being. Other songs on the same Greatest Hits collection reflect this transition from a focus on self-interest to a focus on concern for others. The extrinsic aspirations of the American Dream fade into the background—along with the accompanying attitude, motive, and values—and the intrinsic aspirations become dominant and central. Throughout this period, he becomes more attuned to affiliation/relatedness and community-feeling/helpfulness, as well as to their accompanying attitude of cooperative concern for others, motivated towards happiness, and enlisting the values of compassion and altruism.

Dave recognized the importance of relational dependence early on. In 1990, he and his partner bought the failing metal plating shop at which they were employed from the owner who wanted to retire. From the start, Dave and his partner treated the employees well, so well that the men followed DynaChrome when it moved from Rockport, MA to its new headquarters in Lawrence, MA (a commute of one hour each way). Dave's goal was to make it possible for everyone who worked for him be able to own their own home and send their children to a good school, just as he did: "We're all blue collar parents," explains Dave.

The inherent intrinsic satisfactions of growing a successful business operation were significant, but personal dissatisfaction with extrinsic rewards crept into the idyllic operation. After a decade of collaboration, Dave and his partner fell out over money. His partner had become "greedy;" the more successful the company became, the "greedier" the partner became. By the time he became aware of what was going on, DynaChrome was deeply in debt and in serious trouble. Dave continued to bail out his partner until ultimately, after two years of struggle, DynaChrome was reorganized.

In “Better Days,” Springsteen tells us “my soul checked out missing as I sat listening/ to the hours and minutes tickin’ away.” He realizes that, without “soul” he has been “just sittin’ around waitin’ for my life to begin/While it was just slippin’ away.” This absence of soul has left him “tired of waitin’ for tomorrow to come/ or that train to come roarin’ ‘round the bend.” For Springsteen, “soul” appears attached neither to transcendent divinity, nor to faith in God, or a god, or the gods, at least in any explicit reference to a revealed religious tradition. Neither theological nor psychological, the “soul” for which Springsteen is searching seems to refer to humanity, and to its inherent capacity to transcend both self-interest and immediate others-interest.
For Springsteen, as reflected in words and music, this “transforming aspiration” will become apparent through realization of the same principles described by Susan Stabile in her analysis of the recently-published *Compendium of Catholic Social Thought*, particularly in her examination of human dignity, solidarity, and the common good. This appreciation of the common good, especially when tied to an appreciation of human dignity, is not simply a matter of emotional connection, but of spiritual interconnection. Dave Ferrairo exhibits he same.

"I am a spiritual man," says Dave, "not a religious one. Some people want things from God that you should go out and get yourself." As for Springsteen, Dave's sense of spirituality is linked to humanity, to personal responsibility, and to transformation of self and of others. In a highly regulated industry where environmental regulations are sometimes ignored, Dave has never incurred an EPA violation. He is more than 100% in compliance with all the regulations regarding clean air, clean water, and worker safety. Why?

The fate of the planet is a shared responsibility; according to John Elkington (2006), all businesses should be thinking and acting in terms of a triple bottom line: economics, environment, and social justice. Environmental sustainability addresses both protection of natural wealth (trees, water, air, etc.) and the renewability of sensitive ecosystems. DynaChrome takes its stewardship responsibilities seriously in its appreciation of the common good.

Everyone who works for DynaChrome came in as an unskilled laborer and has worked up from $8.00/hour to $35.00/hour. Dave trained them all, and he feels a sense of responsibility to them. As Robert G. Kennedy states, "A business firm, then, realizes its potential not simply when it conforms to the criteria of efficiency and effectiveness (though it certainly must do this), but when it also becomes a real human community and contributes to the genuine development of the persons who participate in its activities" (2002: 59).

This responsibility speaks directly to the inherent dignity of the individual and of work, committing to the growth of others and to their personal success. In an unspoken focus on subsidiarity, Dave pushes the decision-making down as far as he can, right to the operator, and as a result reduces human error to a great degree. Dave decided that he needed to reward the "valued employees who have contributed to the success of the company over the course of years." He explained, "They show trust, devotion, reliability – they act like they own it. Why shouldn’t they own it?" And, as simply as that, the decision was made to sell part of the company to employees. Joint ownership will lead to economic sustainability and is likely to extend the life of the organization at the same time as it protects the livelihood of the employees and owners.

But the challenges continue. In order to open this new plant, Dave had to sell his home and move in with his son's family. The family considers this a benefit, as Dave can spend more time with his one of his granddaughters. He has no regrets after 30 years in the metal plating business: "After 30+ years, I'm still challenged. Every day is different. And every month is a record month."
Catholic Relief Services: One Organization’s Journey
With Catholic Social Thought and Corporate Social Responsibility

By Ken Hackett and Dave Piraino

Introduction

Catholic Social Thought (CST) and Corporate Social Responsibility (CSR) contain many concepts that are foundational for an organization seeking to become “A Good Company” and promote ethical values in its culture and in its work. While organizations may recognize the innate value of the principles, the challenge comes in embedding them into an organization's fabric and culture and in allowing the principles to guide decisions and relationships at all levels and in all functions. For more than a decade, Catholic Relief Services (CRS), the official relief and development agency of the U.S. Catholic Church, has consciously attempted to inculcate these principles into its work in 99 countries around the world, as well as within the Agency itself. Nearly 15 years ago, the leadership and employees of CRS realized that over time the Agency had lost its focus on some basic Catholic Social Thought and Corporate Social Responsibility principles. A deliberate decision was made to start down a path that would bring the organization back in line with these principles.

1. The history of CRS and how it drifted from the tenets of Catholic Social Thought

From its beginning, CRS has always understood itself as a Catholic agency. For much of its history, CRS understood its mission as offering charity: to feed the hungry, to give drink to the thirsty, to clothe the naked, and so forth. The Agency first did this in the context of war relief when it was founded in 1943. Hence, CRS was essentially an emergency and refugee organization at its founding.

A confluence of events in the mid-1950s helped the Agency to expand: the end of colonial rule in Asia and Africa, the beginnings of the Cold War, and the granting of U.S. government funds to CRS as a result of the Truman Doctrine. The Agency's name was officially changed to Catholic Relief Services in 1955, and the next 10 years saw it open 25 country programs in Africa, Asia, Latin America and the Middle East.

Beginning in the late 1960s and continuing into the 1970s and 1980s, CRS evolved toward socio-economic development and more efficient emergency response. Through this process, CRS came to broaden its understanding of its mission from primarily one of charity and emergency response to one of development, self-help and sustainability. The Agency came to view its work through a “Development Lens.” There was a stress on hiring highly qualified development professionals who greatly upgraded the quality of CRS programming. A side effect of this emphasis on professionalism, however, was that the mission of CRS received less attention.

Events in the late 1980s and early 1990s fundamentally changed the world in which CRS worked. Those years brought two new factors. The first was the end of the Cold War, which led to volatile political and social climates in many developing and Third World countries. The end
of the Cold War also brought a drastic cut in foreign aid that had been funneled to many poor countries to thwart Communism. As a result, the development programs that American NGOs such as CRS were carrying out on a large scale, and to which we had tied our identity, were no longer able to attract public funding in the very poor countries of the world – particularly Africa – where we were working.

At the same time, many CRS staff members began to reflect seriously on the strengths and weaknesses of the agency's approach to development. There was a growing recognition that the focus of CRS on socio-economic development, while a positive innovation, was too ultimately too limited.

2. The journey back

As CRS began inaugurating a process of re-evaluating its mission and identity, it was jarred by an event that forever changed it as an institution: the Rwandan genocide. Beginning in April 1994, more than 800,000 people were murdered over a period of about three months. CRS staff lost friends, colleagues, and family members. And when it was over, they saw that all the good work they had been doing—the silos and schools they built, the children they fed, the farms they helped to plant—was not enough. CRS programs were wiped out within days and many of the people they had served perished.

What the Agency learned from the horror of Rwanda was that its work in relief and development, though carried out effectively and efficiently, was not enough. Its identity as "development professionals" came under serious question. The events in Rwanda were a catalyst that impelled CRS through what can only be described as an institutional transformation. As the Agency went through this process, it was guided by a jewel it rediscovered in its religious tradition: Catholic Social Thought.

Beginning in late 1995, CRS embarked on the first Agency-wide strategic planning process in its history. In 1996, as the result of a series of retreats and executive workshops, the Agency determined that the concept of justice, as defined in Catholic Social Thought – “the establishment and maintenance of right relationships among all people” – should be formulated as a distinct strategy.

Since then, CRS has worked to address issues of justice in all its programs. Instead of viewing its work through a “Development Lens,” CRS now began consciously employing a “Justice Lens” in evaluating its programming. Namely, it viewed its mission and work from the perspective of whether they built a culture of justice and peace through the promotion of just and right relationships.

A commitment to solidarity adopted in its World Summit in 2000 led CRS to realize that, as a Catholic agency, it had not just an opportunity, but an obligation to help U.S. Catholics connect with the people the Agency serves overseas. In other words, CRS recognized that it serves a dual constituency: both poor and marginalized people overseas and Catholics in the United States, in their way of being open to the poor and marginalized. In 2002, CRS established the U.S. Operations Division, which seeks to raise the awareness of U.S. Catholics about the plight of the people CRS serves around the world.
CRS also realized that, as an organization, it had to practice what it preached. This meant examining its management practices as well as its programming overseas. CRS introduced a concept called the "Just Workplace," which entails listening to its employees, allowing innovations, engaging various levels of the organization in decision making, and keeping people throughout the organization informed.

3. The influence of Catholic Social Thought and Corporate Social Responsibility in CRS programming

CRS and Corporate Social Responsibility

Understood narrowly, CRS adopted the principles of Corporate Social Responsibility decades ago, when it embraced the "Development Lens." As the Agency moved to professionalize its programming and make a longer-term impact than was possible by offering mere handouts of food and other supplies, it embraced the concept of sustainable development that would enable communities to become self-sufficient and avoid dependency on foreign aid. With the advent of the Justice Lens, however, CRS became more aware of the effects of its programming on local communities and gradually devised strategies to minimize negative impacts and maximize the local assets and capabilities of the people it served.

For example, for many years CRS has employed the "Do No Harm" approach to doing development work within a context of social or political conflict, which is an effort to examine the complex roots of these conflicts and to help international Non-Governmental Organizations, despite their good intentions, from exacerbating these tensions.

In addition, environmental issues have become more of a concern to CRS in recent years. In its agricultural programs, CRS has adopted agro-economic development and environmental stewardship strategies that seek to mitigate this ecological damage and devise systems that allow communities to reap benefits from revitalized environmental systems.

The influence of Catholic Social Thought on CRS programming

While CRS endorses and attempts to operate according to the principles of Corporate Social Responsibility, it has been more profoundly and explicitly influenced by the tradition of Catholic Social Thought. The principles of Catholic Social Thought are a motivating factor and an evaluative benchmark for much of the mission and programming of CRS. Here are a few specific examples of its influence:

Peacebuilding

Perhaps the clearest influence of CST on the Agency’s programming can be seen in its embrace of peacebuilding as a strategic priority. After adopting the Justice Lens as an Agency-wide strategy, CRS assembled a team of regional advisors and a headquarters-based technical staff to work with partners to launch peacebuilding projects in dozens of countries. From this early concentration of peacebuilding efforts on the grassroots -- at the parish and village level, with local partners and individual dioceses -- CRS has launched several efforts to facilitate peacebuilding as a more regional level. These efforts involve working with the “grass tops” of societies, namely with groups of bishops, with bishops’ conferences from Latin America, Asia
and Africa, and on the continental level in Africa with SECAM (Symposium of the Episcopal Conferences of Africa and Madagascar).

**Microfinance**

With 17 country programs supporting microfinance institutions, CRS has established a solid track record of assisting the entrepreneurial poor in cities, towns or densely populated rural areas. However, reflection on Catholic Social Thought, especially the option for the poor, led CRS in 2005 to refocus its microfinance strategy. There was a sense that CRS could do more to reach out to the extremely poor, severely marginalized people whose borrowing capacity is in the realm of tens rather than hundreds of dollars. Therefore, CRS has made a strategic decision to focus less of its programming traditional microfinance institutions. Instead, the Agency will refocus its efforts on facilitating the formation of savings-led groups, or self-help lending groups. Savings-led groups, in which a small group of people pool their resources, benefit group members quickly. They especially benefit women, who increasingly head up poor households and who studies have found are far more likely than men to channel increased income from their business activities into essential benefits for their families.

**Fair Trade**

CRS has worked since 1995 to promote economic justice through its promotion of Fair Trade, an alternative approach to international trade designed to create economic opportunities for disadvantaged artisans and farmers who are often left on the sidelines of the conventional trading system. The CRS Fair Trade Program comprises three discrete programs: Work of Human Hands (handcrafts), the CRS Fair Trade Coffee Program and the CRS Fair Trade Chocolate Program. In each, CRS works to connect its dual constituencies through partner organizations whose businesses embody Fair Trade principles. Finally, each of these programs generates revenue for the CRS Fair Trade Fund, which makes Development Grants to small-scale producer groups overseas that are working to access the Fair Trade market and Market-Building Grants to Fair Trade advocates in the U.S. who work to expand opportunities for producers overseas.

**Extractive Industries**

The CST principles of our option for the poor and our responsibility to work for the common good have led CRS to become active in shedding light on the issues surrounding extractive industries, particularly oil. CRS supports training, research, policy and advocacy activities at the local, national, regional and international levels. For example, in Cameroon and Chad, the agency supports the local Catholic Church and other partners who are monitoring the construction of the Chad-Cameroon oil pipeline in an attempt to lessen the impact of the project on the local population and the environment and to ensure that promises regarding compensation and revenue management are kept. CRS is also a signatory to the Publish What You Pay statement of principles calling on oil, gas, and mining companies to disclose their revenue payments to national governments.
Policy and Advocacy

CST has spurred CRS to become more active in advocating for poor people and speaking out against structures, systems and policies that exacerbate poverty, as well as supporting measures that reduce poverty. Through legislative lobbying and mobilizing a network of grassroots activists, CRS is able to raise its voice to Congress and the Administration in order to make U.S. policies and practices more just for poor people overseas. Last year, the CRS Legislative Network grew to nearly 1,000 people who sent nearly 12,500 advocacy messages to lawmakers in Washington.

Conclusion: The Path Forward

It has been more than a decade since CRS adopted the Justice Strategy and the Justice Lens. CRS is now in the midst of evaluating its progress toward those objectives, as well as devising a new Strategic Plan that will guide the Agency through the next five years.

The Inspiration and Challenge of Deus Caritas Est

As a humanitarian agency that treasures its Catholic identity and tradition, CRS greatly values the encouraging and challenging words of Pope Benedict XVI in his first papal encyclical, Deus Caritas Est. Pope Benedict directs several messages to those who work at organizations like CRS:

- Our work should always be done in a spirit of humility.
- As humanitarian workers, we must also be motivated by a “heartfelt concern” for the people we serve, and humanitarian action should be rooted in selfless love (the love of neighbor called agape). (32)
- Those of us who work in the Church’s charitable organizations should receive the proper professional training and resources to carry out our tasks. (31)

Inspired by these entreaties, CRS faces several challenges as it strives to continue its commitment to inculcating CST and CSR in its practices and policies.

- Outreach to Islam: It is an ongoing challenge to maintain an openness to religious pluralism, while at the same time remaining true to our Christian tradition and heritage.
- As an organization based in a country that is the world’s remaining superpower and which represents an increasingly wealthy and influential Catholic constituency, CRS must remain conscious of its power and influence as an institution and its ability to overwhelm local Church structures.
- It is CRS policy and intention to work with and through the local Catholic Church Caritas organizations. Situational realities and requirements, however, sometimes dictate a more proactive approach that can alienate smaller, local Catholic social service agencies. CRS must strive to keep in mind these sensitivities, even in the most exigent of circumstances.
- Finally, one of the major funders for CRS projects overseas has historically been, and remains the U.S. government. CRS acts as a transparent mediator in the delivery of a great deal of U.S. foreign aid overseas, ensuring that the generosity of U.S. taxpayers is not squandered by corrupt regimes or inefficient programs. Decisions to accept U.S. government funds are made in accordance with the Agency’s Catholic values, its mission and its programming priorities.
The Principles of Community Investment: Essential for the “Good Company”
Lura Mack and Margaret Weber

ADS’ Socially Responsible Investing
The Adrian Dominican Sisters, a congregation of approximately 1000 vowed religious women in the United States, have over thirty years of commitment to and practice of socially responsible investing (SRI). Their commitment incorporates two aspects of SRI: institutional investing in the major stock markets according to criteria, including shareholder advocacy on corporate social responsibility (CSR); and investing in non-profit community-based organizations engaged in community reinvestment. Both aspects of the Adrian Dominicans’ SRI history are rooted in and guided by the Catholic Social Justice tradition. Both endeavors are guided with fiduciary and financial expertise, with expectation of financial return.

The ultimate justice question, we believe is: does the economic endeavor in question promote the common good? How does the economic enterprise fare under scrutiny for commutative justice, distributive justice and contributive justice? How does an enterprise live up to the social contract to improve society at large by the actions of the business?

Corporate Responsibility
The Adrian Dominican Sisters work in collaboration with the Interfaith Center on Corporate Responsibility (ICCR). Founded in 1971, today this diverse group of religious investors is a membership coalition of over 275 Protestant, Roman Catholic and Jewish Institutional Investors with the combined membership representing approximately $110 billion in investments.

The Adrian Dominican Sisters’ Investment Criteria state, “We charge ourselves with the responsibility to evaluate our Congregation investments in relation to the Gospel social principles. We strive to effect change toward justice in the policies and operations of corporations in which we hold investments.” Specifics include screening out top weapons producers, tobacco products and for-profit health care. The Investment Criteria also call for avoidance of polluting industries, those exploiting workers and violators of human rights.

In the broadest of strokes, what we’re looking for is transparency about what the corporations are doing and accountability for those actions. In the deepest sense, the work of corporate responsibility is about transformation: transformation of policies and practices that have a negative impact on workers, communities, society or the environment.

Community Investment
In 1978, the second SRI component of the PAB, Alternative or Community Investments was instituted. These community-lending activities allow us to create economic partnerships with community-based organizations, to provide disadvantaged populations with opportunities to become self-determining and improve their communities, enabling us to help build an economy of solidarity. Community investment loans are a contrast to corporate investing, in that an enterprise which meets the criteria for an “alternative investment” (AI) loan is, we believe, inherently more closely aligned with Catholic Social Teaching (CST). Indeed, the following
criteria for an Adrian Dominican Sister’s community investment loan almost read like a listing of CST principles.

Adrian Dominican Alternative Loan Criteria and CST and Justice

<table>
<thead>
<tr>
<th>Alternative Loan social criteria</th>
<th>Principle Catholic Social Teaching</th>
<th>Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide opportunity for community control or local self-determination</td>
<td>Solidarity</td>
<td>Contributive Justice</td>
</tr>
<tr>
<td>Create alternative approaches (such as cooperatives) for the production of goods and services</td>
<td>The Dignity of Work and the Rights of Workers</td>
<td>Commutative Justice; Contributive Justice</td>
</tr>
<tr>
<td>Target women for employment, management and ownership</td>
<td>Call to Family, Community, and Participation</td>
<td>Contributive Justice; Distributive Justice</td>
</tr>
<tr>
<td>Empower low-income persons to create, manage and own enterprises</td>
<td>Life and Dignity of the Human Person</td>
<td>Contributive Justice; Distributive Justice</td>
</tr>
<tr>
<td>Re-invest in decaying urban areas or revitalize urban areas</td>
<td>Option for the Poor and Vulnerable</td>
<td>Distributive Justice</td>
</tr>
<tr>
<td>Demonstrate a stewardship approach to land, water, air and other resources</td>
<td>Rights and Responsibilities; Care for God’s Creation</td>
<td>Commutative Justice</td>
</tr>
<tr>
<td>Contribute toward integration (racial, urban-rural, inner city-suburbs)</td>
<td>Life and Dignity of the Human Person</td>
<td>Commutative Justice; Distributive Justice</td>
</tr>
<tr>
<td>Engages in healthy/green building practices.</td>
<td>Care for God’s Creation</td>
<td>Commutative Justice; Distributive Justice</td>
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A case study in Corporate Social Responsibility: Wal-Mart

Wal-Mart is the largest retailer in the world. The corporation employs 1.6M people. In 2006, Wal-Mart enjoyed $11.231 B in profits out of $315.654 B in revenues. Wal-Mart’s market size, from 20 to 40%, places it in position of great power. A visit to WalMartStores.com will show a very positive face of the company. The Mission, “To improve the lives of everyday people, everyday,” is admirable and one that certainly is not contrary to principles of social justice or CST. In one of the main corporate offices are signs posted everywhere, “Wal-Mart is a Good Company: Good Jobs, Good Life for Less, Good Partner, Good Neighbor.” The company’s assertions differ greatly, however, from the claims of its critics regarding wages, environmental effects, equal opportunity and impact on local and macro economies.

Any critique of corporate practices/policies must begin with the context within which the corporation functions. Examination of the world’s largest retailer and world’s largest employer today will be very different from an examination of the same company as it began. Even though
the corporate culture in many ways remains the same, i.e., “always-low price, always,” the impact of how the company operates under that mantra is different than when the mantra began.

The Interfaith Center on Corporate Responsibility (ICCR) members have advocated on numerous issues with Wal-Mart since 1991, beginning with the issue of the sale of war toys. Shareholders have approached the company on contract supplier/vendor standards; domestic weapons sales; equal opportunity and diversity reporting; American Indian Sacred images; environmental principles (CERES); executive compensation; genetically modified organisms; violence in video games; sustainability; executive compensation disparity, and product safety. With each of these issues, the corporate social responsibility movement and other sectors of society such as civil and labor rights movements, have pushed the company to institute change. The history of change at Wal-Mart, until recently, is one of reluctance and resistance.

Let’s look at two examples.

Equal Employment: Wal-Mart states its Equality of Opportunity Policy as: "Wal-Mart will not tolerate discrimination in employment on the basis of race, color, age, sex, sexual orientation, religion, disability, ethnicity, national origin, marital status, veteran status, or any other legally-protected status." Yet it took over a dozen years of shareholder advocacy to get Wal-Mart to be transparent about their level of diversity on all levels of employees. In April 2006, Wal-Mart agreed to post on its company website its EEO-1 documentation.

Compensation disparity and wages: In 2005, Wal-Mart’s CEO received compensation that was approximately 1,000 times the average pay of Wal-Mart’s US employees. In the US, the minimum wage has not been increased since 1997, and has the lowest purchasing power since 1955, a 51-year low. In October 2005, CEO Lee Scott urged the US Congress to consider raising the minimum wage. Yet, as Congress has debated legislation to actually increase the minimum wage, it is not evident that Wal-Mart strongly advocated an increase. A spokesperson for the company said that Mr. Scott’s comment was not ‘support for an increase but just a call to consider the increase.’ A company cannot have it both ways, cannot be simultaneously for improving the lowest employment wage and mute in the legislative attempts to do so.

Southern Mutual Help Association (SMHA): A Case Study

In 1969 Southern Mutual Help Association was founded to be an agent of change. Born out of distressed and oppressive conditions found in the cane fields of Louisiana, SMHA sought to promote justice due to pervasive conditions on the plantations. Over the years, the work has expanded to include not only farm worker families, but families in transitioning economies and, most recently, those affected by the Hurricanes Katrina and Rita natural disasters throughout South Louisiana. Poverty is expensive and debilitating to the human condition. SMHA seeks to end poverty, not by servicing it, but through “mutual help,” the premise of helping families help themselves.

“SMHA emerged as a solution to the challenges and public tensions that underlined the War on Poverty. We confronted the failures of policies that did not change people’s lives, because they
were based on service and not on systemic change. SMHA’s foundation was – and still is – our strong convictions and a passion for justice.” (www.southernmutualhelp.org)

In practice, the SMHA model uses “building strategies” combined with creative “economic strategies” (affordable housing loans), ergo building effective, healthy, life-giving, sustainable and just communities. Access to capital through low-interest loans enables groups such as the Adrian Dominican Sisters to invest in organizations that are providing mission-based opportunities through their work at the forefront of communities.

Traditionally, the economy of Southern Louisiana has relied on the agriculture and fishing industries, although both have experienced substantial declines. SMHA co-founded a 13-state Southern Sustainable Agricultures Working Group to assist in redirecting USDA policy and land grant resources for use by family farmers and sustainable agriculture.

SMHA and Rural LISC partnered in piloting a national homeownership initiative, the Rural Home Loan Partnership (RHLP). Since its inception, over $8 million has been invested in rural Louisiana parishes and the revitalization of rural areas. Environmental Assessments are conducted on any property a family considers purchasing, assisting families in learning about their connection to the environment. Families also receive training on conserving energy, pest control without chemicals and other issues to create healthy families, households and communities.

SMHA is well structured and considered by peer organizations to be an effective leader and lender to low-wealth individuals and families. The Adrian Dominican Sisters have successfully been in partnership with SMHA since 1988. Their understanding of social, economic and environmental justice has allowed them to successfully implement family wealth-building strategies and affordable loan dollars. The average interest earned over the 23 years has been just under 4%.

**Transforming Wal-Mart with the Community Investment Model**

*Development models and Wal-Mart: exploration of how applying community development principles would affect current Wal-Mart practices.*

Our history prompts us to state that the community development enterprise is closer to the “good company” model than a publicly traded company. Thus a question presents itself: How can we move the community development model, or at least elements of it, to the corporate business culture? How do we apply community development principles to current corporate practices? Our world cannot afford, on every level to turn their heads, and allow companies to ignore the interconnectedness.

Wal-Mart focuses on the individual: individuals having access to products; individuals affording products; individuals taking responsibility; individuals conserving resources; individuals taking care of health. What if Wal-Mart focused instead on community impact? What if Wal-Mart first defined itself as a corporate citizen, with emphasis on the company’s interdependence with the community? In recent months, Wal-Mart has initiated some significant changes. The corporate goals for increased fuel efficiency for corporate trucks, for increased recycling, for waste
reduction and for sustainable products are all positive moves. The company has even agreed with the unionization of all Chinese workers with the All China Federation of Trade Unions, albeit that Chinese law requires companies with large foreign investments to allow unionization. What if Wal-Mart worked with suppliers and contractors to assure that adequate wages and benefits were paid down through the entire supply chain? What if Wal-Mart endorsed and began paying a Living Wage to all employees?

**Organic foods:** Wal-Mart recently announced that it would significantly increase its offerings of organic foods in its stores. Given the company’s well-documented approach to suppliers, i.e. that the supplier will inevitably be pressured to lower its prices in order to stay on Wal-Mart shelves, what will be the impact on the organic suppliers? Will the insistence of lower price result in a drive to undermine organic standards as a way to decrease cost to Wal-Mart?

**Health care:** Health care costs are a burden to employers and employees in the United States. The administrative and personal challenges in tracking an individual’s health record is one aspect of the US complicated health care delivery set-up. Wal-Mart’s information technology expertise may have great offering for creating, or moving toward, a national database of health information. Affordability of the health care, is however, a central issue. Will Wal-Mart resist mandates for employers to provide health benefits, or will it pay employees a wage sufficiently so that the health benefit is affordable? As Wal-Mart formulates a position on health care policy, will the corporation simultaneously advocate for sufficient public funding and the tax basis for the funding, and contribute corporate earnings toward the provision of quality care?

**A challenge to socially responsible investors**
Socially responsible investing is investment with principles. It is not easy or without cost. It takes human resources to do SRI, regardless of the methodology. For corporate responsibility, a financial manager adhering to criteria for a stock portfolio will need resources beyond the standard financial analysis. Additional resources are needed to assure compliance with the criteria and to engage in shareholder advocacy, as the likelihood that corporate practices will align with principles of CST without such effort is practically nil. For alternative investment, due diligence for alternative community investing requires the resources for reviewing loan applications and the ongoing financial monitoring of each investment. A congregation can minimize those resources by loaning through intermediary groups, such as credit unions or community loan funds. Alternative investing has lower financial returns balanced, however, by the very low rate of loss and the high social return.

If experience demonstrates that most corporations resist changes which would put the corporation more in alignment with the principles of Catholic social teaching, and if the community reinvestment model demonstrates that it is inherently more aligned with CST, is there any obligation for religious investors to evaluate their portfolios and to increase the amount of funds in community reinvestment, and decrease funds invested in mainline corporations? We propose that this is a key decision as of how to be invested socially responsibly and also be in concert with Catholic Social Teaching.
Concurrent Sessions V/Sessioni simultanee V
We have come to the end of an era in the economic history of humanity. Accordingly, we must adjust our understanding of business reality and change our thinking about what works best for our companies. In short, the institutionalized rivalry between workers and the owners of capital that grew up with immature and then adolescent capitalism has outlived its usefulness in the current era of globalization.

For nearly 200 years the vision of an inevitable struggle between labor and capital for the proceeds of industrialization has shaped the business institutions, management philosophy, labor relations, the politics and the culture of capitalism. Shaped on the one hand by the early romantic socialists and anarchists such as Proudhon (who asserted that “Property is theft.”) and, on the other, by owners of enterprise who looked upon workers as a fungible and expendable raw material, as no more than a cost of production, capitalism was largely assumed to be a system of exploitation. What capital extracted in profits through ownership of the means of production, labor lost. And vice-versa.

For 100 years the political history of Western Civilization was driven by the efforts of workers to organize themselves against the owners of enterprise and the countervailing efforts of those who owned capital to hem in the power of organized labor.

By 1950 the modern world (now including a reindustrializing Japan) had achieved a balance of power between labor and capital in the welfare state where a triumvirate – unions, business associations, and state bureaucracies – negotiated among itself the terms of capitalist production. In the Communist states, a Communist Party dictated terms for labor and used the state to raise investment capital.

By the 1990’s Communism had collapsed, the age of the internet had arrived, and the dynamic of a single global marketplace brought prosperity to more and more people around the world. In the waning decades of the era of adversarial, zero-sum, capitalism, as Communism headed towards its demise, membership in American unions began to decline as a percentage of the American labor force. At the same time, the percentage of Americans who owned stock in capitalist enterprise (directly or indirectly through various kinds of investment funds) rose dramatically, turning a majority of Americans into “capitalists”. This startling development was in no way predicted by the scientific socialism of Marx and Engels.

Little by little, union growth in the United States came more and more from the organization of public sector employees – workers not at all in the capitalism system of production. Even with the organization of government employees, union rolls dropped to just 12.5% of the US
workforce. In 2004 just 8% of private sector workers were union members. The decline of union strength reached a crisis in the summer of 2005 when one third of the AFL-CIO unions broke with the leadership of that federation and went off on their own.

In France, where opposition to “capitalism sauvage” is a long established political and cultural tradition, union membership rates are lower than in the United States and unions are concentrated in the public sector.

In the United Kingdom, 13.2 million workers were union members in 1973. Today the number is only 7.5 million. Union are only 17.1% of those in private sector employment, but they constitute 58.2% of those in public employment. In the private sector, management reaction to a strike is very likely to be outsourcing of those tasks.

In Germany, membership in the unions constituting the Deutsche Gewerkschaftsbund has fallen to the level of the early 1970s. Of the 6.8 current members of these unions, nearly one-third are retired or jobless. Those in the service sector, female employees and part time workers are not joining unions. If this declining trend in membership continues, there last German union member will retire in 2020.

Unions versus management; labor versus capital; workers versus owners: that was the first paradigm of capitalist production, one fit for the industrial age when capitalism gave birth to modern civilization through large scale factory production. But as early capitalism has evolved into globalization, factory manufacturing has become a smaller and smaller part of advanced, wealthy, OECD economies. Since 1970 manufacturing as a percent of employment has dropped from 40% in Germany to 22% today; from 28% in Italy to 21% today; from 28% in Japan to 18% today; from 34% in Britain to 13% today; and from 25% in the United States to 11% today.

There is no future for management theories and practices built upon the traditions of industrial manufacturing.

Manufacturing has moved to lesser developed countries with lower labor costs. Decreasing costs of transportation (now using air cargo, sea/land inter-modal container technology, and efficient road transport) and of communications (cell phones and the internet) have made possible global sourcing of production. Worker/manager conflicts have become ripe in countries such as China, Korea and Vietnam to which industrial production has moved from OECD countries.

A second transformation has overtaken OECD countries as well. Their working populations are in decline. From 2005 to 2050 Germany’s population will drop from 82.4 million to 73.6 million; Italy’s from 58.1 million to 50.4 million; Spain’s from 40.3 to 35.6 million; Japan’s from 127.4 million to 99.9 million, etc.

The two transformations – loss of industrial production and shrinking populations dominated by the needs of the elderly – threaten the social systems of OECD countries with collapse.

The challenge to the advanced countries arises not just from adverse trends; rather the more demanding challenge is cultural and intellectual – too many business leaders, senior union
officials, and politicians are static in their thinking. The old paradigms still rule us while resting in the ashcan of economic history.

The only way ahead is to rethink the role and meaning of work. Simply put, work is not labor - not hoeing under the tropical sun, not sweating away on a hot factory floor, not bending dainty fingers to a water or steam driven loom from dawn to dusk, nor soldering little wires while standing along a TV production line.

Work, rather, is an imprint of the personality on the world; even more, it is a co-creation of the world.

To be successful under new conditions, managers, on behalf of the owners of the capital invested in business, must value work, especially the work of their employees.

Rather simply actually. Jobs need to be bigger. By this we mean not bigger in terms of title but larger in responsibility. This requires giving workers more control over what they do and what they produce. The person who sweeps the floor ought to choose the broom.

Corporate leaders have the primary responsibility for putting this new management style in place. The most important job of the leader is to grow people. Company leadership must ensure that employees are provided with creative outlets, that employees do work that has meaning to them and to the company. These kinds of jobs should be the new way of understanding what “work” is all about. Profit will flow from this approach as an inevitable by-product.

The good company of the future will center on human capital enhancement, on work as an exciting challenge, one that can draw the will and the aspirations for personal significance of each employee into his or her occupation.

Some can see in this approach the activation of core concerns of Catholic social teachings while others may consider it a form of social justice seeking a “bien commune”, but it may be no more than principles guiding very sound management of enterprise.
Participation as a linkage between principle and practice.
The dialogue of CST and CSR in E.F.Schumachers last publication

Good Work

Prof.dr.H.Opdebeeck

On the eve of the 30th anniversary of E.F. Schumacher’s death, it’s worthwhile to discover that the author of Small is Beautiful was one of the first authorities to integrate CST and CSR principles. The economist Ernst Friedrich Schumacher (1911-1977), a convert to Catholicism, familiarized himself with the catholic social tradition. In his last publication Good Work he clarifies policies and practices of the good company, especially regarding participation of employees.

In this paper first the characteristics of what Schumacher calls ‘good work’ are explained. In the second part two pivotal elements of Schumacher’s vision on good work come to the fore. On the one hand, there is the necessity of finding out time and again what is the most appropriate form of ownership to attain 'good work'. On the other, it is necessary to take into account the differences in scales in the various kinds of businesses. In the final part of this paper it becomes clear that through regaining an insight into what good work really implies for Schumacher that he constitutes a triad across different ethical schools.

1. According to Schumacher, a first characteristic of what he calls 'good work' is the fact that protecting human dignity, a central concept in CST especially in Gaudium et Spes, it enables people to use their talents and skills, and to practice and perfect them. Not, in the first place, for external reasons, but for the intrinsic quality of the experience itself. The second characteristic of good work is that it enables one to be subservient to the other and to work together with this other person. So good work avoids accepting the dominant individualistic CSR-model of the firm as a “nexus of (social) contracts” (See H.Alford, B. Sena and Y.Scherbinnina, Philosophical Underpinnings and Basic concepts for a dialogue between CST and CSR on the “Good Company”, Position Paper for the Angelicum Conference, Oct. 2006, p. 2). The third characteristic of good work connects labour as a means with labour as an end. To regard labour merely as a means will soon result in numbing and alienating labour. Having a ‘job’ is only a tiny aspect of what ‘good work’ encompasses. To regard labour merely as a goal will soon detract from the basic purpose of labour to bring about sufficiently necessary and sensible goods. In this way a well-considered production of the required goods and services is, according to Schumacher, the third characteristic of good work. In a nutshell, one could say that good work allows the good company developing both subjective, inherent goods and objective instrumental goods. Human being uses his or her talents and skills, is aimed at being of service to other people and guarantees a well-considered production of required goods and services.

2. In order to develop good work as a linkage between principle and practice, Schumacher notices that in general few steps are taken to develop appropriate forms of democratic participation in management. According to Schumacher any reflection on democratic participation in management has to be looked into from the perspective of the most opportune form of ownership and scale. Schumacher is not only opposed to marching behind the flag of either large-scale or small-scale, he also warns against the disadvantages of a general application of the principle of the private firm, where the means of production are in private hands.
2.1. According to Schumacher the real power of the theory of the private firm is in its merciless simplicity, which fits in so wonderfully well with the mental patterns that are created by the phenomenal successes of science. The power of the latter is based on a ‘reduction’ of reality to one of its many aspects, mainly the reduction of quality to quantity. This reduction of quality to quantity is expressed by the fact that in practice the objectives of a private firm are easily reduced to the (quantitatively calculated) motive of profit. The author therefore argues that it is necessary to acknowledge that private ownership of the means of production seriously reduces the freedom to choose one’s objectives, as it forces one to almost exclusively strive for profit, so that one is biased to consider matters only in this perspective. As a private person the business man may indeed be open-minded enough to consider other aspects of life, such as goodness, truth and beauty, but as a businessman he is forced to be only interested in profit.

From the general evidence of material progress one should be able to prove that the modern system of firms with private ownership is the most perfect instrument for achieving personal improvement. The private firm speculates on a series of human impulses like greed and envy to be the motor of production and consumption. A system that is so fundamentally based on greed and envy leads to permanent and unlimited material growth with the well-known negative side-effects. Already in the fifties Schumacher pointed out the limitations of a system with such an elaborate network of private firms:

“(a) Private firms will not automatically do the things necessary for international survival (e.g. in their export effort or in their use of imported materials). (b) Private firms will not automatically do the things necessary for the maintenance of full employment (e.g. in their investment policy). (c) Private firms will not automatically do the things necessary for higher productivity. (d) Private firms will not automatically do the things necessary for social harmony (e.g. elimination of soul-destroying work; or enhancing the status of the worker. (e) Private firms will not automatically work in the interest of consumers (e.g. produce cheap goods of high quality). (f) Private firms will always affect the distribution of incomes and property towards increasing inequality and thereby set up social tensions.”

Usually public ownership is brought to the fore as the alternative for private ownership of the means of production. So one argues that public ownership allows full freedom in the choice of objectives. Public ownership would allow the prioritising of man instead of the motive of profit. Even though stepping away from the prioritising of profit is crucial, Schumacher argues that the alternative of public ownership will not do. Ownership is merely a means to achieve previously defined objectives. Whether it is public or private, ownership will always be just a part of the larger whole. In principle, the objectives of this larger whole are not generated by specific forms of ownership. Instead of arguing for the radical abolition of private ownership of the means of production, he argues in favour of a clear diversification of the forms of ownership.

So in line with CST, Schumacher feels it is important, as a first criterion, to distinguish between (a) property that is a means to arrive at more dignified labour and (b) property that is its substitute. With an author like R. Tawney Schumacher was convinced that it is pointless to be for or against private ownership, without finding out whether the particular form of private ownership is either a means to arrive at a more optimal form of labour, or whether it makes this more dignified labour more difficult. On the basis of this first criterion – whether or not the form of ownership is a means to arrive at dignified labour – one can already verify the desirability of the different forms of ownership.
2.2. As a second criterion for more appropriate systems of ownership, Schumacher mentions the scale of the involved economic system or subsystem, because the first criterion is best connected to the variety in scale. Moving up from small-scale and middle-scale to large-scale firms, one notices that private ownership gradually becomes not so much a means for developing dignified labour, but rather turns into its substitute:

(a) In a small-scale firm, Schumacher argues, private ownership is predominately natural, fruitful and just.

(b) In a middle-scale firm, private ownership is functionally largely unnecessary.

(c) If a large-scale firm works with private ownership, it runs the risk of having owners with no specific function, sponging off other people’s labour.

Schumacher therefore argues that private ownership is the form of ownership that is best suited to small-scale enterprises. This level requires no co-ownership or public ownership. When certain countries tried to nationalise small-scale companies, the companies usually functioned less well. Schumacher argues that in this way the need for a lot of honest people who set up an enterprise to take care of their own business is put down. Everybody risks to become a kind of employee in a gigantic bureaucratically run organisation. In this way life grows scanty and poor.

For a middle-scale firm Schumacher prefers co-ownership as an alternative for private ownership. As a typical example of a firm on the middle-scale level, Schumacher refers to the Scott Bader Company, a firm in England specialised in polyester resins, polymers and plasticisers. Ernest Bader, who founded it in 1920 after having been a worker for years, tried to reform his family business in 1951 on the basis of his deep understanding that the flourishing of his firm was not only due to him and his family, but also to his workers and in the end to the society in which the firm was allowed to be active. In order to realise this reform, he changed the form of ownership from private ownership to co-ownership. In 1951 the family still had 10% of the rights of ownership, but in 1963 the total invested capital was transferred to the community of workers, which was given the legal form of a public limited company, the ‘Scott Bader Commonwealth’. The thorough change of the number of owners caused a fundamental shift in the meaning of ownership. The emphasis was now far more on the responsibilities of the management than on the rights. Schumacher points out that the final responsibility for the firm lies not with the management, but with a kind of parliament of workers, a management board that hires and fires managers. Moreover a series of measures were taken to really involve the workers in decision making.

As said before, the form of ownership needs to be appropriate to the scale, but it should also be a means to arrive at more dignified labour or achieve higher objectives in general. The tasks that Scott Bader Commonwealth set itself of doing are economical (making profit), technical (marketing), political (being an example to other companies) as well as social tasks. The social task is related to the principle that, after 60% of the net profit is put aside for taxes and self-financing, the rest amount becomes property of the Commonwealth, to serve two purposes. Half of the amount is spent on bonuses for the people working in the firm, and the other half is spent on social purposes outside of Scott Bader. This clearly increased the social consciousness of the Commonwealth. It led to initiatives such as setting up collective workplaces for reparation and carpentry. Because of all this, the firm witnessed a new lifestyle, in which no longer the demands for higher wages were the central issue, but in which the workers mainly began to appreciate leisure time. It’s remarkable how in this 21st century, a lot of these principles have been put into practice, e.g. by movements like the Focolare.

When it comes to large-scale firms, Schumacher thinks that private ownership and private freedom of enterprise are but an illusion. According to the author, the ‘owner’ of such a firm is no longer
personally involved, so that their situation is comparable to that of large landowners, who live of
the work that their farmers do on the land. It need therefore not be a surprise that large-scale firms
were rather quickly transformed into public ownership: nationalisation had started. As an example
of a large-scale firm, Schumacher often mentions the National Coal Board in England.

2.3. Private ownership seems to suit the typical characteristics of small-scale companies,
while with regard to medium-sized and large concerns, Schumacher feels that forms of
participation such as joint-ownership, co-partnership and co-management are required. When
he refers to co-operation with other human beings as one of the characteristics which he feels
are important for a revaluation of labour, he is indeed talking about the possibility of
democratic co-management or participation. One notices that employees usually have a
greater say (i.e. right to vote) at a national level than at the level of the company where they
work. However democratic a society may be in terms of political institutions, the
organizational structures with regard to company management are often very autocratic.
There is not enough awareness of how this results in a great deal of de-motivation and lack of
creativity. According to Schumacher, the starting point for the construction of a system of
democratic co-management or participation is the development of a co-ordinated network
between employees so that, concurrently with the second characteristic of good work, a
feeling of solidarity is created between them. The setting up of mutual consultative bodies is
the first requirement in order for workers to be liberated from a situation in which they feel a
mere cog in the machine. In this manner, a social framework is constructed that is a school
for attaining a common telos which springs from a story or tradition such as social democracy
or personalism that has been passed on through society.

3. To come to a conclusion it’s important to reconsider Schumacher’s view on good work and
participation, from a broader ethical point of view. On the one hand, Schumacher constructs a
bridge between the Aristotelian-Thomistic tradition (behind CST) and that of Kant (behind
CSR). The former teleological approach emphasizes a goal-oriented ethics that strives
towards the common good. With Kant’s deontological approach, the notion of duty comes to
the fore within a context of universal law, in which the procedure of decision-making is more
important than purposefulness. On the other hand, Schumacher connects these two kinds of
ethics of principles (be it teleological or deontological) and concrete situations. D. Maines
and M.Naughton describe this kind of linkage as ‘Middle Level Thinking’ (MLT), the
mediating voice that effectively connects principle and policy, essential for practically wise
decision makers whose judgments are informed by the particularities of the situation
(D.Maines and M.Naughton, Middle Level Thinking, The Importance of Connecting and
Mediating Catholic Social Thought, Corporate Social Responsibility, and Business Practice,

Schumacher’s vision on good work belongs to what is nowadays referred to as virtue ethics.
In this sense, a parallel may be drawn with for instance Alasdair MacIntyre in his After
Virtue. MacIntyre asserts that ethics only has an inner consistency if it fulfils three
conditions. One could compare these conditions with the three essential dimensions of the
mentioned MLT described in D.Maines and M.Naughton (Ibidem, p. 6-8). First and foremost,
the members of a society must assume a clearly defined common goal or purpose. The first
dimension of MLT insists on the importance of tying first-order principles such as the
mentioned human dignity to finer, second-order principles. Subsequently, the common goal
or ‘bonum commune’ must be formulated in stories. Central to many of these stories is the
religious and spiritual perspective of the moral agent. It’s important that the Church “seeks to
learn from others on how to best implement her own social teachings” although without effective middle-level thinking this Catholic social thought is indeed at risk of “covert and naïve forms of dependence on secular ideologies” (Ibidem, p. 9 and 13). Finally, ethics must be put into practice continuously. A lack of concreteness is reflected in the laundry list of generic values – respect, tolerance, honesty,- which populate corporate mission statements, yet have little to do with day to day life within the organization (Ibidem, p.3). A practice becomes a moral practice when the social activity is no longer performed for an external reason, for what it may yield to an individual, or because it is required, but because of the intrinsic qualities of the practice itself, which one learns to appreciate by practising as a community. In this perspective business sustainability for instance, more and more is understood “as both the end-point and the way to that point (J.Crawford)” or “as both stock and flow (S.Zadek)” ( H.Alford, B. Sena and Y.Shcherbinnina, op.cit., p. 10).

When this virtue context for the good company is applied to a concrete example, such as participation, it appears that the mediation between autonomy and involvement is guaranteed, so that the notion of participation isn’t narrowed any longer to, for example, an individual investment. Good work in which one puts to use one’s talents, in co-operation with others, and in a well-considered (social democratic) production system, generates a framework for participation in which ownership and scale are judicious criteria, so that good work truly functions as a fundamental activity in the good company.
Stakeholders and the Common Good: A Polarity within Corporate Conscience

Kenneth E. Goodpaster

_In the society of organizations, each of the new institutions is concerned only with its own purpose and mission. It does not claim power over anything else. But it also does not assume responsibility for anything else. Who, then, is concerned with the common good?_

-- Peter Drucker

It is common in the literature of business ethics and CSR to interpret the idea of corporate conscience using some version of “stakeholder thinking” as a conceptual guide – almost as a synonym for “ethical thinking in business.” In this paper, I question not the _necessity_, but the _sufficiency_ of translating corporate conscience exclusively in stakeholder categories (e.g., customers, employees, investors, suppliers, competitors, etc.). The idea of moving _beyond_ stockholder thinking to stakeholders seems to be a salutary step in the direction of constructing a conscience for corporations, but is it _enough_? Might there be more to institutionalizing ethical values in the marketplace than meets the eye? Let us begin with the idea of _conscience_ as it applies to individuals. Later we shall consider the idea as it applies to organized groups.

Part I. Conscience and the Individual

_Moral Insights: Josiah Royce and Jean Piaget_

Harvard philosopher Josiah Royce, a friend of William James who wrote at the end of the 19th Century, believed that all of ethics was grounded in something he called the _moral insight_ (a gateway to what philosophers today call the “moral point of view”). The moral insight (as described by Royce) lies at the foundation of the “Golden Rule,” the oldest and most widely shared ethical precept known to us. It is about reciprocity between love of self and love of one’s “neighbor” – and ultimately of one’s community. The moral insight is central to understanding and appreciating _conscience_ in individuals – and in organizations as well.

If we join Royce’s moral insight to the work of Swiss psychologist Jean Piaget, we begin to appreciate a second aspect of conscience. Not only must we reach beyond what Royce calls the “illusion of selfishness,” says Piaget, we must also reach beyond a _second_ illusion, what we might call the “illusion of social authority.” Moral maturity requires, according to Piaget, first overcoming _ego-centricism_ (through what Royce calls the “realization of one’s neighbor”) and then overcoming _heteronomy_ (by rejecting social norms as surrogates for right and wrong). Only after one passes through these two illusions does conscience – what Piaget calls _autonomy_ – become possible.

These two observations – by Royce and by Piaget – serve as _precursors_ to an understanding of conscience. They remind us that whatever else conscience is, it is a form of _awareness without illusion_. But what can we say about the kind of awareness that conscience provides in human life, _beyond_ the fact that it avoids the illusions identified by Royce and Piaget?
Philosopher Thomas Nagel wrote 25 years ago about conscience that:

\[ \ldots [t]he \ real \ issue \ is \ the \ relative \ priority, \ in \ regard \ to \ action, \ of \ two \ ways \ of \ looking \ at \ the \ world. \ On \ the \ one \ hand \ there \ is \ the \ position \ that \ one's \ decisions \ should \ be \ tested \ ultimately \ from \ an \ external \ point \ of \ view, \ to \ which \ one \ appears \ as \ just \ one \ person \ among \ others. \ldots \ This \ point \ of \ view \ claims \ priority \ by \ virtue \ of \ greater \ comprehensiveness. \ldots \ On \ the \ other \ hand \ there \ is \ the \ position \ that \ since \ an \ agent \ lives \ his \ life \ from \ where \ he \ is, \ even \ if \ he \ manages \ to \ achieve \ an \ impersonal \ view \ of \ his \ situation, \ whatever \ insights \ result \ from \ this \ detachment \ need \ to \ be \ made \ part \ of \ a \ personal \ view \ before \ they \ can \ influence \ decision \ and \ action. \]

Nagel’s phenomenology of conscience is quite perceptive. He reminds us of our human capacity for alternative perspectives in the moral life — specifically an agent-centered perspective that contextualizes our decision making in the “here and now” and a more detached or impartial perspective that deliberately steps back from the “here and now” to assess more comprehensively the promptings of conscience.

Note that when Nagel refers to an “agent-centered perspective,” he is not referring to egocentrism or self-interest. On the contrary, he means a perspective that acknowledges obligations to others as well as to oneself — but obligations that derive their authority from the point of view of an embedded agent in a concrete decision-making situation. The agent-centered perspective is a here-and-now framework for yielding a decision.

Nagel’s philosophical observations seem congruent with the theological perspective articulated in 1991 by Joseph Cardinal Ratzinger (Pope Benedict XVI since April 2005) in a workshop for bishops:

\[ [T]he \ fact \ that \ the \ conviction \ a \ person \ has \ come \ to \ certainly \ binds \ in \ the \ moment \ of \ acting, \ does \ not \ signify \ a \ canonization \ of \ subjectivity. \ It \ is \ never \ wrong \ to \ follow \ the \ convictions \ one \ has \ arrived \ at—in \ fact, \ one \ must \ do \ so. \ But \ it \ can \ very \ well \ be \ wrong \ to \ have \ come \ to \ such \ askew \ convictions \ in \ the \ first \ place, \ by \ having \ stifled \ the \ protest \ of \ the \ anamnesis \ of \ being. \ The \ guilt \ lies \ then \ in \ a \ different \ place, \ much \ deeper—\ not \ in \ the \ present \ act, \ not \ in \ the \ present \ judgment \ of \ conscience \ but \ in \ the \ neglect \ of \ my \ being \ which \ made \ me \ deaf \ to \ the \ internal \ promptings \ of \ truth. \]

The “anamnesis of being” is an allusion to Plato’s doctrine of knowledge as a kind of “memory” or “recollection” rooted not in mere appearances, but in the “really real.”

Both Nagel the philosopher and Ratzinger the theologian are drawing our attention to a polarity at the core of conscience between subjective and objective; between the perspective of the decision maker who must act in a context using a “framework,” and a perspective that is anchored in a more holistic awareness of moral truth. And neither author is suggesting that the polarity be eliminated. On the contrary, both see the polarity as part of the inner dynamism of conscience itself. We must follow our convictions; but we must also examine and discipline our convictions, seeking their justification in a larger vision of human good.
Part II. Conscience and the Corporation

We have seen that the consciences of individuals in their subjectivity – however “awakened” they might be from the slumber of selfishness or compliance – need to seek validation in a more comprehensive perspective, lest they become “deaf to the internal promptings of truth” or even “criminals of conviction.” Can we connect this observation to our understanding of corporations as moral actors? Does it apply to the idea of corporate conscience? What does it say about stakeholder thinking?

What is Stakeholder Thinking?

It behooves us to clarify the meaning of the phrase “stakeholder thinking.” The phrase usually refers to a decision procedure used by corporate management, a decision procedure that highlights the implications of various available courses of action for different groups of affected parties (the stakeholders). As a decision procedure, stakeholder thinking is intended to function within the context of the concrete decision making that corporations already do in other (non-ethical) arenas.

A point worth noting is that the phrase “stakeholder thinking” in its normal use presupposes a context that is politically and economically given. A company that does stakeholder thinking is typically thinking “inside its box” we might say, with specific customers, employees, suppliers, capital markets, laws, and regulations. The benefits (ethically) of stakeholder thinking are (i) that it enlarges moral consideration from a narrow group of parties (stockholders) to a broader group of parties; and (ii) that it makes ethical decisions systematic, operational, and to some degree open to measurement (“triple bottom line reporting,” “balanced scorecard,” etc.).

Reflections about the larger social implications of corporate decision making (e.g., regarding the family, the moral and spiritual development of children, public health, civic virtue, and the natural environment) are typically not framed in stakeholder terms. This is mostly because they involve stepping “outside of the box” and turning a critical eye toward the influence of business behavior on the system as a whole, what some would call “the common good.” Perhaps this is a useful way to distinguish corporate social responsibility (CSR) from business ethics.

Three Levels of Reflection in Business Ethics

It has become standard practice over the past three decades to think of the field of business ethics as involving three levels of analysis: 1) the level of individual responsibility and decision making; 2) the level of corporate responsibility and decision making; and 3) the level of the societal system as a whole. At each level, conscience enters the picture (see Diagram) and at each level there are questions about the sufficiency of market-based and law-based reasoning. The challenge before us is about the relationships between and among these three levels.

These levels of analysis are not morally independent or autonomous. That is, the pursuit of conscientiousness at one level may require concurrent reflection on an adjacent level. Just as conscience at the level of the individual seems to call for supplementation from a less partial perspective – inviting more comprehensive moral reflection – so too conscience at the level of the organization seems to call for supplementation from a less partial perspective.
In the case of an organization, *stakeholder thinking* represents the more embedded, less comprehensive outlook, the more “subjective” point of view (recalling Nagel and Ratzinger). Corporate conscience calls for stakeholder reflection, to be sure, but it also calls for a shift to the societal perspective, asking of corporate leadership more than simply stakeholder satisfaction. Some examples may help to clarify the point.

![Diagram. Levels of Moral Awareness.](image)

(1) Some cigarette companies appear to pay regular attention to their stakeholders with focus groups, warnings about health effects, and philanthropy. Yet a more comprehensive (less “embedded”) look at the common good (through the lens of public health) might well lead to decision making that would diversify away from tobacco products entirely. And it is worth noting that such a corporate reorientation need not be forced by making tobacco products illegal. “Prohibition” in its many forms can be ineffective, as Americans know well from their experience with the 18th and 21st amendments to the US Constitution.

(2) Producers of certain interactive video games market them to adolescents even though there is significant evidence that explicit sex and violence in these games actually does affect behavior. A 2006 statute in Minnesota aimed at protecting game players younger than 17 was recently struck down by a U.S. federal judge as unconstitutional. The video game industry sought to block the law, arguing on stakeholder grounds that “it violated constitutional rights of game makers and customers.” The sponsor of the Minnesota law, Sandy Pappas, commented after it was struck down:

> ‘The federal court said we don't have a right to protect our children, but we protect our children from other things. We don't let them smoke or buy liquor.’ Pappas said the judge's conclusion that the current body of research didn't show violent video games harm children and teens defies logic. ‘You score points for how many women you rape, how many cops you kill,’ Pappas said. ‘How could that not affect them psychologically?’ [“US Judge Throws Out Minnesota Video Game Law,” *Pioneer Press* (Aug. 1, 2006)].

(3) Concern about “global warming” is a concern about the common good of humankind. Indifference to this concern seems to be due to conventional stakeholder logic which is *partial* to
stakeholders in a short-term time horizon. “Future generations” are typically not listed as stakeholders in conventional stakeholder thinking.

What these examples share is a call for a “larger” social awareness that steps outside of the embedded stakeholder framework in an effort to see whether (or not) the implications for the common good of the identified decision-making patterns are dysfunctional.

So we see that the three-level analysis of business ethics carries with it not only taxonomic utility for mapping the subject matter of the field, it also speaks to the normative demands on conscience in business decision making. Individuals are called to get “outside of themselves” in assessing their subjective consciences. And organizations, similarly, are called to get “outside of themselves” in assessing their stakeholder analyses. John Paul II seems to have appreciated this point when he wrote in 1991:

> Of itself, an economic system does not possess criteria for correctly distinguishing new and higher forms of satisfying human needs from artificial new needs which hinder the formation of a mature personality. Thus a great deal of educational and cultural work is urgently needed, including the education of consumers in the responsible use of their power of choice, the formation of a strong sense of responsibility among producers and among people in the mass media in particular, as well as the necessary intervention by public authorities... [Centesimus Annus, 36].

John Paul II is reminding us that any market system, even a regulated and stakeholder-driven market system, depends profoundly on the “comprehensive picture of man” and of the human community that guides its business leaders and corporate practitioners. Stakeholder thinking may be necessary, but it is not sufficient.

Summary and Conclusion

Let us return to Peter Drucker’s question: “In the society of organizations... Who is concerned with the common good?” With the help of philosophical and theological reflections on conscience, we have found that the answer lies beyond conventional stakeholder thinking.

These reflections are reminiscent of the Open Question argument used a century ago by G. E. Moore in his classic treatise, Principia Ethica (1903). Moore could say today: Yes, this business practice is warranted by the market, but is it good? Or yes, this corporate policy is permitted by the law, but is it right? But Moore could also wield his argument this way: “This proposed course of action satisfies key stakeholders, but does it truly advance the common good?”

The consciences of corporations involve a kind of partiality or subjectivity, even when they appreciate the importance of stakeholders and go beyond profitability for stockholders and legal compliance. Like individual consciences, corporate consciences must seek validation lest they become unduly committed to stakeholder demands that are not sustainable from a more impartial perspective. There is a whole which is greater than the parts, but it does not show up in “constituency reasoning.” Perhaps we should reserve the phrase “corporate social responsibility” (CSR) for this dimension of moral awareness.
T.S. Eliot, in one of his *Choruses from the Rock* (1934), observes that humankind spends too much time “dreaming of systems so perfect that no one will need to be good.” The power of this poetic phrase can be appreciated in the present context because the “systems so perfect” include the external systems of the market, the law and regulatory machinery of government. But perhaps to the surprise of some, they also seem to include the venerated apparatus of “stakeholder thinking.”
A Personalistic Perspective on Corporate Social Responsibility: an application in the Economy of Communion Paradigm

Lorna Gold, & Rev John McNerney

Over the past number of years there has been an enormous change in the way that we perceive of business. Within the ‘post-Enron’ commercial world following the subsequent ‘climate change’ in the financial environment there is the clear recognition of the need for change and the development of concepts like ‘corporate social responsibility,’ ‘corporate governance,’ and a whole debate about ‘shareholder value theory,’ all of which are proof of this transformation of economic perspective. It is unlikely that these changes would have come about save for the mobilisation of public opinion and the ‘fallout’ effect of corporate corruption upon the current situation. But it all raises the question of the need for continuous dialogue between the ‘Church’s Social Teaching’ and what is nowadays termed ‘Corporate Social Responsibility.’

An economic theory is never free-standing. It is “embedded” into the philosophical and social fabric of a civilisation and is therefore cognisant of the “sociality of the economic system.” There is always a presupposed world-view and an understanding of the human person. Philosophy and economics are not therefore uncommon bedfellows. As Adam Smith writes:

Philosophy, by representing the invisible chains which bind together all these disjointed objects endeavours to introduce order into this chaos of jarring and discordant appearances, to allay this tumult of the imagination.

Therefore, the somewhat disembodied and apparently atomised individual of The Wealth of Nations is rooted “in the socialization process described in The Theory of Sentiments.” The insight that economic orders are influenced by particular philosophical and religious viewpoints is indeed not new. We can think of the works of Max Weber in his The Protestant Ethic and the Spirit of Capitalism, and more recently that of Michael Novak in The Spirit of Democratic Capitalism. The whole contribution of the world of classical Islam and the Arab scholars like Al-Ghazali, Ibn Khaldun and the Hanafite School of jurisprudence to the development of business contracts is also of importance as is the influence of Judaism.

‘Corporate Social Responsibility,’ an expression much in vogue in the business world today in the wake of the corporate crisis, can be understood as the ways in which businesses can create social value beyond their immediate economic functions and it

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presupposes a certain understanding of the nature of commerce and the human person. In this paper we will examine the philosophical and personalistic foundations for a proper understanding of the CSR viewpoint. We will also examine the ‘Economy of Communion’ project as an application of these personalistic norms in the business lebenswelt.

Pope John Paul II in the encyclical *Centesimus Annus* cites St Thomas Aquinas in a chapter devoted to the topic of ‘Private Property and the Universal Destination of Material Goods’ and says that

> if the question be asked, how must one’s possessions be used? The Church replies without hesitation that man should not just consider his material possessions as his own, but as common to all...

He subsequently adds the business of business

> is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavouring to satisfy their basic needs…A business cannot be considered only as a “society of capital goods;” it is also a “society of persons” in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company’s activities or take part in such activities through their labor.

We can profitably ask if this is mere wishful thinking or just ivory tower cogitation. After all if you think of the case history of Enron and the various *dramatis personae* involved in subsequent corporate collapses you would not get the impression of the circulation of a temperate climate of responsibility as being the *modus operandi* of any leading world businesses.

The authors Bethany McLean and Peter Elkind write about Jeffrey Skilling, chief protagonist in the Enron saga, who attended Harvard Business School, when they note that

> here at last Skilling was in his element. At Harvard he became a star. He stood out in part because of his brilliance. And in part because of his harshly libertarian view of business and markets. The markets, he believed, were the ultimate judge of right and wrong. Social policies designed to temper the market’s Darwinian judgments were wrongheaded and counterproductive. And that wasn’t all. John LeBoutillier, a Skilling classmate (and later a one-term congressman), remembers one class in which the students were discussing a product that might be—but wasn’t definitively—harmful to consumers. The question of the class: what should the CEO do? “I’d keep selling the product,” replied Skilling. “My job as a businessman is to be a profit center and to maximise return to the shareholders. It’s the government’s job to step in if a product is dangerous.” (Skilling has always denied this story.)

In strictly Friedmanesque terms and, of course, this may sound odd, Skilling is probably correct but he missed out an essential consideration. The expertise of a businessman is precisely in the use of his entrepreneurial skills to create wealth; that consequently leads to the betterment of the “society of persons.” The fault for the omission of the ‘missing link’ cannot solely be apportioned to Skilling in that it seems to be symptomatic of what we can term as a systemic ‘scotosis.’ The Canadian

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10 The EOC is a socio-economic experience that has emerged within a spiritual movement called the Focolare movement
11 Cf. *Centesimus Annus*, nos. 30, 43.
philosopher Bernard Lonergan describes ‘scotosis’ as an “aberration of understanding.” He describes how

just as insight can be desired, so too it can be unwanted. Besides the love of light, there can be love of darkness…To exclude an insight is also to exclude the further questions that would arise from it and the complementary insights that would carry it towards a rounded and balanced viewpoint. To lack that fuller view results in behaviour that generates misunderstanding both in ourselves and in others. To suffer such incomprehension favours a withdrawal from the outer drama of human living into an inner drama of phantasy.

It is true that one of the most consequential thinkers of the 20th century, namely Milton Friedman, did write that

there is one and only one social [ethical] responsibility of business – to use its resources and engage in activities designed to increase its profits.

Nonetheless, in respect of Freidman’s definition a lot of writers and business practitioners like Skilling fail to quote him in his entirety, in that he continues to say in the same sentence that the profit motive must stay within what he calls the rules of the game, that is, “to engage in open and free competition, without deception or fraud.” In other words the conventions of the system imply the antinomy of ‘deception,’ namely, ‘trust,’ ‘truthfulness’ etc. The economic drama is enacted within a given framework. And that is presupposed within the system. There is no such thing as a ‘presuppositionless’ economics or system just as there is no such concept as a neutral science or philosophy.

Alasdair MacIntyre reminds us of this when he comments that

our everyday activities …[including our economic activities.] often presuppose and give expression to beliefs which already have an evidently philosophical character… [Indeed,] the very language that we cannot avoid speaking, our everyday vocabulary and idiom, is itself not philosophically innocent, but to a significant degree inherited from and still informed by past philosophical theories whose presence in our modes of speech, belief and action is no; longer recognized.

Pope John Paul II’s legacy could be stated as the attempt to recapture the reality and splendour of the truth about the human person as he or she acts within the multidimensional drama of humanity and that viewpoint perceives the enactment of all the dimensions as being ‘co-essential’ or constitutive of the well-being of the human person. The ‘economic’ aspect and the concept of ‘responsibility’ are not antinomies after all; one does not necessarily eclipse the reality of the other; if it does it’s the sign of an anthropological disorder. Thus, one does not find in John Paul II’s reflections a Manichean attitude to commerce; economic activity is not as in the words of the Irish poet W.B. Yeats in the poem ‘September 1913’, just about fumbling “in a greasy till, and add[ing] the half pence to the pence.” Pope John Paul II steers carefully away from any form of utopianism in terms of economic paradigms. He warns

14 Ibid.
17 Ibid.
18 The famous Methodstreit can be understood as the attempt to achieve an ‘exact’ method.
the Church has no models to present; models that are real and truly effective only arise within
the framework of different historical situations, through the efforts of all those who
responsibly confront concrete problems in all their social, economic, political and cultural
aspects, as they interact with one another.20

This paper as previously mentioned goes on to suggest that when Chiara Lubich
launched the Economy of Communion (EOC) project back in 1991, she never
envisaged that her EOC proposal would develop into a theory taken up by
sociologists, economists and philosophers alike. In fact, she probably never
considered its implications on the intellectual plane. But her initiative can be
understood as Phillip Selznick observes in his study on leadership within business and
as John Paul II adverts to in Centesimus Annus; as an example of how people emerge
within history and organisations that possess a gift of great human sensitivity but at
the same time they have the ability to give rise to a whole consensus and the
channelling of much energy.21

Lubich had the desire to know how an appalling social situation could change and she
is not as we have seen unique in this.22 What is novel perhaps are her vision of a new
order within the market system and the application of it in the business world. Lubich
witnessed a concrete situation of need and intuited that there is a requirement of a
different anthropological paradigm. In its developmental stages (and it is still arguably
at this point) her proposal is in a sense a paradigm within a paradigm; but this is itself
significant. She sees a situation of absolute poverty but grasps that the only possible
road upwards is through a person-centred formation of capital.

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20 Cf. Centesimus Annus, no. 43.
21 Cf. Leadership in Administration: A Sociological Interpretation (Berkeley: University of California
22 You have the ‘Mondragon Cooperative Corporation’ (MCC) model in the Basque region
(http://www.mondragon.mcc.es). It is the seventh largest business corporation in Spain. Cf. Thomas W.
Malone, The Future of Work: How the New Order of Business will Shape Your Organisation, Your
Management Style, and Your Life (Boton: Harvard Business School Press, 2004); Alternatives to
economic globalisation, Eds. John Cavanagh & Jerry Mander (San Francisco: Berrett-Koehler
Publishers, 2004). The editors of this book have composed a very useful resources guide at the end of
their work that gives an idea of how widespread the notion of alternative models is. Cf. David
Bornstein, in The price of a dream: the story of the Grameen Bank and the Idea that is helping the Poor
to Change their Lives ( Chicago: University of Chicago Press, 1997); presents the microcredit loan
programme made to 2.5 million low-income villagers, mostly women, that has since been adopted in
over fifty-eight countries.
In recent years, conversations on Catholic social thought and corporate social responsibility have offered challenges to mainstream views of business. The standard shareholder and stakeholder models narrowly view business as a kind of social contract that is grounded in self-interest. In the shareholder model, this has meant that the goal of managers is to provide the greatest return to shareholders. As an alternative to the shareholder model, the stakeholder model has emerged in an effort to define business and its purpose more broadly. The stakeholder model identifies various parties involved in a business, not just the shareholders, as having significant interests and roles. Still, with this model, the relations of stakeholders are still based on balancing competing interests, only now there are more agents to consider. In reflecting on what Catholic social thought can offer to business theory, Catholic academics have offered the common good theory as an alternative view of business, where the goal and relations are rooted in the larger project of achieving the good for all.

As a contribution to the discussions on the purpose of business and its function, we suggest that the work of Bernard Lonergan offers a necessary complement to the broader view of business. Lonergan was a Jesuit theologian and philosopher, whose work was grounded in the philosophical traditions of Aquinas and Aristotle, among others. His concern for democratic political philosophy and an early education in Catholic social thought led him to recognize the limits of mainstream economic thought. Lonergan developed a macroeconomic analysis that offers an alternative to capitalist and socialist analyses. Combined with his framework for ethics, this analysis provides a broad and systematic vision of economies and how they can serve the common good. We will outline Lonergan’s macroeconomics and ethical framework with a view to the function of profit in an economy to draw out Lonergan’s challenge to business in achieving higher social values.

Lonergan’s structure of ethics situates relationships among different levels of goods in accordance with increasingly broad horizons of concern: goods of desire, goods of order, and values (progress in history). For Lonergan, economies are goods of order; they are networks of innovation and collaboration that have their own moral criteria. As goods of order, economies provide for particular goods on an ongoing basis. Further, economic goods of order are fundamentally social and provide these goods not only for individuals but for everyone.

While we may enter into economic activities in order to achieve particular goods as an initial goal, the dynamics of economic goods of order require a higher view. Goods of order take up the desire for particular goods, and they are situated in a broader complex of values and relationships. These dynamics cannot be reduced to the pursuit of self-interest without their massive distortion. Unfortunately, mainstream economic analyses have achieved such a distortion. But it is not complete. Economic goods of order still function to achieve particular goods for many regularly, and their distortion is challenged by the higher view offered at the level of values that considers progress and decline in history. Notions of dignity, justice, and the
common good emerge from this higher level of value to point out the limits of a distorted economic order. However, these higher values can only point to these limits. In order to overcome the distortion, there is needed an understanding of economic relations. This requires a general macroeconomic analysis.

For Lonergan, the proper goal of economic activity is to provide a continually improving standard of living for the entire community. This goal indicates the dynamic nature of economies and their basic function for the good of all. This is not achieved automatically, and it is certainly not achieved with a narrow view of pursuing interests. The challenge that Lonergan’s analysis issues is that the dynamic relations and phases of economic activities must be understood and decisions must be made democratically to direct the economy toward this goal. The ethical obligation, then, involves not only a framework for situating goods and values, but it requires an understanding of the dynamics of economic relations themselves.

The key distinction between Lonergan’s macroeconomic analysis and mainstream analyses is its identification of two distinct circuits of productive activity and exchange of payments. Mainstream macroeconomic analyses rely on a single-circuit model of supply and demand between households and firms. Economists like Joseph Schumpeter, however, have found this model to be inadequate for understanding the dynamic rhythms of economic cycles. Lonergan follows the direction suggested by Schumpeter and develops a two-circuit analysis in which transactions, payments, and productive activity perform two distinct functions. Lonergan distinguishes these two circuits or flows of production and payments as basic and surplus. The basic circuit functions to produce the goods and services that provide the standard of living; the surplus circuit functions to produce goods and services that allow for the acceleration of the basic circuit, leading to further developments in the standard of living. This two-circuit analysis allows for an understanding of economic activity as dynamic. Each circuit expands at different times, and the interaction between the circuits gives rise to a dynamic relationship of economic phases and rhythms.

Some common examples are helpful to get at this distinction. For instance, we know there is a difference between the activity of producing potatoes and exchanging them for money and the activity of producing the ploughs to till the soil in order to produce potatoes. Potatoes enter the standard of living when they are sold. Ploughs are used to accelerate the production of the potatoes that will enter the standard of living. They are a surplus innovation that allow for the acceleration of basic production in order to improve a standard of living, which in this case involves the provision of food. Further, while the potatoes are used up when they enter the standard of living, the ploughs can be used indefinitely to continue allowing for an acceleration of basic production.

The two circuits each involve the relationships of production and the exchange of payments. We can follow the flow of payments in each circuit. There is money set aside as basic demand for products. That money becomes basic receipts when payments are made to basic suppliers. Basic supply also has to make payments as outlay in wages. The wages go back to basic demand for further potential basic payments. In the surplus circuit, the flows of products and payments follow a similar circuit of demand, receipts, supply, and outlay. The flows of these circuits have
their own dynamism, which means that rates of production and payments will vary, depending on factors such as lag periods, mistakes, or delays in production.

The two circuits are also in relationship with each other. There are occasions when basic producers need tools or equipment for their production process. The potato farmer needs to buy a plough to ready his or her fields for seeding. The farmer will set aside money that will become surplus demand for surplus goods. This money crosses over from the basic to the surplus circuits. Also, surplus producers make payments as outlay in wages that will crossover from the surplus to the basic circuit. These crossover payments have an important role in responding to the dynamism of the circuits. This is because an unbalanced crossover of payments could drain one circuit at the cost of the other. This has the potential result of halting or preventing the expanded activity of either or both circuits. Ultimately, this could mean the collapse of businesses and a drop in the standard of living of a community.

Along with the crossovers between the two circuits, there is a redistributive function that is the location of financial transfers between the circuits. The redistributive function involves activities that are outside of the productive processes of the circuits. For instance, real estate is largely redistributive, in that the transactions involve an exchange of ownership but not the production of a good or service (aside from the sales service of the agent). Also, the sale of shares on the stock exchange is largely redistributive. The redistributive function is important to the productive circuits, however, as the financing of the circuits, through investments, credit, or loans, is redistributive. For instance, banks perform a redistributive function when they give credit to a business for an innovation that needs investment funding. They are redistributing money set aside in savings and earmarked for investments, with a guarantee of return. The redistributive function, then, is essential to initiating the innovations that are the key to expansions of productive activities.

The expansion of activities in the surplus circuit occurs when major innovations are underway. There is an increasing rate of production and payments that requires financing by investments. This expansion does not happen automatically. Decisions are made to invest in a surplus expansion and to sustain it so that its full benefits will be felt. When a major surplus expansion has reached its full capacity, there is the need for a shift to a major basic expansion, as the surplus innovation begins to accelerate basic productive activity. The major basic expansion leads to an eventual rise in the standard of living when managed intelligently and responsibly.

For Lonergan, the social function of the economy is highlighted in his understanding of the role of profit as a social dividend. There are two kinds of profit in Lonergan’s analysis: normal profit and profit as pure surplus income. Normal profit is the amount of income received over the amount of expenses paid when the economy is in a steady state. In a major surplus expansion, normal profit remains, but another kind of profit emerges: pure surplus income. This is the amount that increases as investment in the surplus expansion increases. Further, it is the amount that decreases as the surplus expansion shifts to a major basic expansion, with the surplus activity levelling off but at a higher rate than before the expansion.

Profit from a major surplus expansion sets the conditions for surplus businesses to become sustainable at a higher level of performance. However, this profit has a broad social function,
beyond merely a benefit for the business itself. This kind of profit sets the conditions for the innovations of the surplus expansion eventually to accelerate the production capacity of the basic circuit. It is this basic expansion that allows basic businesses to create the jobs and produce the goods and services that allow for a rise in the standard of living for all people. Therefore, this form of profit is properly a social dividend.

The failure to distinguish between normal profit and profit as pure surplus income has led to several key mistaken directions taken by economists, business people, financial institutions, and regulators. The first mistaken direction involves the failure to invest pure surplus income in the major surplus expansion. This might be the result of the redirection of profit to personal income alone (such as salaries for CEOs, executives, or employees), or it may be the result of increased basic income not being diverted back to the surplus circuit by way of savings. The result is that the major surplus expansion is cut off prematurely and a major basic expansion is prevented.

The more common problem with the failure to distinguish normal profit from profit as pure surplus income occurs when the economy must make the transition to a major basic expansion. Often, this transition is resisted by surplus enterprises due to pressure to maintain higher share values for investors. Once a major surplus expansion reaches its peak and begins to taper off, some business people, financial institutions, and regulators read this shift as a recession, not as a normal shift in productive activities. They act to try to sustain the growth of activity that had been occurring, and hence artificially extend the major surplus expansion beyond its proper lifetime. This includes shifting interest rates by banks, deficit spending by governments, and establishing a favourable balance of trade with exporting and importing countries.

A key part of the problem regarding profit in mainstream economics is the lack of an explanatory framework for understanding economic variables and their dynamic relations as an ethical, rather than an automatic, mechanistic process. For Lonergan, managing the economy and managing profit are ethical issues. They require decisions that are informed by an understanding of the dynamic relations of productive activity. These decisions must be democratic, because managing an economy involves everyone. This requires a massive effort to educate people and to allow the participation of all people in economic decision-making. It also requires a regional focus, because regional, community-based participation is the best democratic forum for economic life.

The challenge that Lonergan presents is an effort to get beyond the interest-based models in business and economics to an understanding that ethical principles are grounded in a systematic understanding of the dynamic processes of productive activity and exchange. The principles that are promoted by Catholic social thought offer challenges to distortions in economic orders, distortions that have led to widespread suffering and have diminished people and the integrity of creation. These principles act as higher level values that guide our thinking about how economic orders can be ethical. However, the values promoted by Catholic social thought require a macroeconomic analysis that can situate ethical decision-making as the democratic response of people participating in the activities of production and exchange. These decisions are ethical if they respond to the dynamism of the economic circuits and their phases so as to improve the standard of living for all. This sets the ongoing conditions for material goods to be achieved and for political and cultural goods of order to function.
As for the function of profit as a social dividend, profit functions in the economic good of order to provide investment in a major surplus expansion for the eventual goal of a major basic expansion that will lead to a rise in the standard of living for all. The actual, practical function of profit, then, is to increase a society’s capacity to provide for increasingly broad ranges of needs. This requires that cooperative structures are in place and that there is democratic participation in decision-making. This challenges the narrow interest-based views of economics and business that have dominated liberal capitalist societies. Further, it does so without diminishing the important function of profit in economic growth and development. So, the typical debate between supply-side versus demand-side approaches in economics is transcended by a view that both the production end and the consumption end are important to economic success, but they are understood in terms of a dynamic macroeconomic analysis and an ethical framework that demand democratic participation and self-transcendence, not merely self-interest.

The challenge of the dialogue between Catholic social thought and corporate social responsibility is to situate the relationship between the principles of CST and the broader vision and goals of business that are requires of corporate social responsibility. Lonergan’s ethical framework and macroeconomic analysis offer important tools for furthering this dialogue.
The Land of Realism and the Shipwreck of Idea-ism: Thomas Aquinas and Milton Friedman on the Good Company and the Social Responsibilities of Business

Jim Wishloff

In the thirteenth century, the great medieval churchman, Thomas Aquinas, wrote, “No one can ever own capital resources absolutely or control their use without regard for others and society as a whole.” In the twentieth century Nobel Prize winning economist turned moral theologian Milton Friedman, said that business has one and only one social responsibility, namely, “to use its resources and engage in activities designed to increase its profits.” It is clear that the understanding of our moral personhood as it applies to economic decision making has been dramatically altered in those seven intervening centuries. This inquiry uncovers why this has happened and what the implications are of such a profound shift in thinking about the responsibilities of enterprise.

Gaining a deep understanding requires an appreciation of the proper hierarchy of intellectual disciplines. All proximate disciplines that purport to be studying human behaviour rest on more foundational or ultimate disciplines. Specifically economics and the enterprises it spawns are grounded in the more encompassing disciplines of ethics and philosophical psychology. All areas of inquiry come to rest in metaphysics, the most universal branch of philosophy investigating the nature of being. Diagrammatically, the relationships are pictured as the structure of a house.

Economics
How should one act in providing for human temporal well-being?

Ethics
How ought one act to achieve the properly human good?

Philosophical Psychology (or Anthropology)
What kind of being is the human being?

Metaphysics
What is the nature of reality?

Beginning with Aquinas, the foundations of his ethical prescriptions are disclosed. The basis for his normative stance in political economy is found in the metaphysical and moral realism of the classic tradition. Of keynote is an understanding that the human mode of existing is qualitatively distinct from other beings in reality. What is unique about human beings is that their substantial form is a spiritual reality. This spiritual soul gives human beings powers utterly outside the possibility of matter. Man has an intellectual faculty by which he knows [the truth] and a will by which he loves [goodness]. The four cardinal virtues are the qualities of character necessary for the perfection of these faculties, for the fulfillment of natural human moral
personhood. The application of the cardinal virtues to enterprise yields a system of responsible free enterprise. The following philosophical map summarizes the discussion.

<table>
<thead>
<tr>
<th>Metaphysics</th>
<th>Philosophical Psychology</th>
<th>Ethics</th>
<th>Political Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human = matter + life + consciousness + SELF-AWARENESS</td>
<td>Rational Intellect</td>
<td>Prudence</td>
<td>Personalism creating an economic order that is -guided by moral norms</td>
</tr>
<tr>
<td>Animal = matter + life + CONSCIOUSNESS Plant = matter + LIFE</td>
<td>Rational Will Irascible Appetite</td>
<td>Justice</td>
<td>-responsive to the common good</td>
</tr>
<tr>
<td>MATTER</td>
<td>Concupiscible Appetite</td>
<td>Temperance</td>
<td>-contributing to authentic human development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>[Responsible Free Enterprise]</td>
</tr>
</tbody>
</table>

A presentation of the social responsibilities of business from this viewpoint is made. The critical insight is that all social institutions exist to elevate the human person. Once created or willed into being, even on a contractual basis, a community of persons, of which the economic enterprise is one example, is morally obligated to serve its objective end—the realization of the common good. What this means in practical terms is outlined.

- **The Enterprise’s Purpose:** As human beings we must continually use our rationality to win our way in the natural world we find ourselves dependent upon. We must provision for ourselves and it is commercial enterprise that is charged as an institution with the “solving” of this provisioning problem. The purpose of the firm is to fulfill this social mandate—to provide the material goods and immaterial services that people need to live full human lives—just as medicine has as its telos health. The justification of enterprise as an institution is the contribution that it makes the human flourishing. But in Aquinas’ conception the human person is a spiritual being, destined for an eternal happiness with God. Economic production ought to serve this end. As Heinrich Pesch, the father of Catholic economics, pointed out: spiritual and moral goods should not be “sacrificed on the altar of material interests.” The want structure encouraged by enterprise should serve good moral formation. In sum, the goods and services provided by commerce should really be goods and services, not bads and disservices, when human well-being in its totality is considered. Private property rights are to be seen in this light as well. Although the right to private property can be considered a natural right because it respects the transcendent dignity of the human person, it is not an absolute right. Property ownership is a means that makes human well-being possible, not an end in itself. Responsibilities in use attend to the possession of economic resources. In CST, the right to life and to the necessary means of subsistence are natural and personal rights that are higher than the right to material property.

- **Managing the Enterprise:** A working community is formed whenever people come together to realize aims in business organizations that would be unattainable if they acted individually. Regardless of the legal arrangements prevailing in these endeavours, the relationships established are covenantal—i.e. they are personal, the relationships between one human person, united body and soul in a single nature, and another human person, similarly spiritual in nature. Employees are rightly seen as associates in the enterprise. They ought to be given meaningful work to do that utilizes and develops their higher faculties and this work should be conducted in conditions respecting their dignity. Employees should have a genuine say in organizational decisions that
significantly impact their lives and their rights to join associations of their own choosing should be honoured. Wages should be paid that allow workers and their families to enjoy a living standard in conformity with human dignity and the waste of resources which could be used to satisfy the needs of others should be avoided.

- External Relationships: Just as the relationships internal to the firm between associates of the enterprise are moral in nature, so too are the relationships external to the undertaking. Transactions with customers, suppliers and subcontractors, investors and creditors, government, and the public weal take place in a social community and are made by human beings. The moral agency of those engaged in these exchanges is still operative and should be guided by justice. This means that one cannot fall back on the fact that an agreement was made to justify one’s actions, since this would leave open the exploitation of the dire need of others. Neither can market forces be used to avoid the responsibility that comes with economic personhood. Supply and demand are the result of human actions, the very decisions to be held up to the light of moral scrutiny.

- Stewardship Obligations: Christian scripture holds that it was God’s will to create the world and it was His ordinance to make human beings the lord of it (Gen. 1:28). Our rational nature elevates us above the inanimate world and over plants and animals. Even though the natural world is destined for the good of humanity, this dominion brings obligations. First of all, prudence is to be exhibited. Since we have to make our home here, wisdom dictates that the environment should be cared for. The material world should be maintained in its integrity and protected. Appropriate limits should be observed. An arbitrary and destructive use of things cannot be morally justified. Secondly, our dominion is not absolute. The natural world is God’s masterpiece. The Artist has let us use the work but He has not surrendered ownership of it to us. The great privilege of being stewards of God’s creation is accompanied by the onerous responsibility of emulating God’s providence.

To recapitulate, Aquinas and those who would think in his tradition take as their philosophical starting point things in reality, not things imagined. Reflection is on the world of real existence, which men have not made or constructed, with the idea that the knowledge gained of this reality is the only reliable guide to human conduct. That is, sanity, and thus the possibility of sanctity, depends on adapting one’s self to ultimate reality. Metaphysics uncovers this reality. Morality is a right response to the discovery. What one ought to do is based on what [metaphysically] is.

Next, the exploration turns to a consideration of the intellectual changes that brought about a loss of this approach to reality, this method of philosophy. The central figure in the drama is French thinker and mathematician Rene Descartes. Descartes may rightly be referred to as the Father of Modern Ideology because he explicitly dispensed with the common heritage in philosophy that began with things in reality and immodestly attempted to rebuild our entire knowledge system using only his rational powers. Tragically, in beginning with the thoughts in his mind, Descartes set the Western world adrift from any solid moorings in reality. His epic quest in search of the pure science of pure reason would set the form of our consciousness for centuries to come. New ships would be constructed by those beginning not with things in reality but with ideas in their mind and those new ideologies would lure people off the solid realistic ground given by common sense often with deadly consequences.

One of the deadliest of these ideologies was positivism, a new religion created out of whole cloth in the mind of August Comte. This nineteenth century intellectual creation elevated the methods of the natural sciences to metaphysical stature. The practical impact of this was to
sever morality at its metaphysical roots, plunging us into a state of nihilism. Quite succinctly our philosophical maps have been radically redrawn.

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<th>Philosophical Psychology</th>
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<tr>
<td>There is only one ontological category in reality [only MATTER/ENERGY is real]</td>
<td>Human beings are taken to be nothing—but physical chemical systems—i.e., just another material object in nature [It is sciences’ task to elicit intelligibility of the physical universe.]</td>
<td>A matter of taste or preference [isolated atoms of materiality bear no moral responsibilities]</td>
<td>Unrestrained Individualism with Efficiency (Profit accumulation) the sole measure of all human activity [the Regime of Capitalism]</td>
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Friedman is an heir of Comte’s vision, insisting as he does that a distinct positive science of economics must be constructed. His position on the social responsibilities of business and the good company must be understood in the light of his commitment to the worldview that extends positive science to social facts. For Comte and Friedman, methods have become metaphysics. The idea that only the methods of the physical sciences are capable of yielding sound knowledge dictates the structure of ultimate reality. Once Friedman begins this ideological adventure, he is constrained to think as he can.

Ultimate reality is reduced to one level of being, matter in motion, since this is what the physical sciences rightly investigate. Human beings suffer this same fate. Thomist personalism gives way to Enlightenment individualism as the human person is reduced to an individual atom of materiality. The idea of the common good is set aside since society is now just a collection of these isolated individuals. In Friedman’s worldview solidarity, the moral-organic bond providing unity to the communities naturally formed by human beings, is absurd. In his famous tract, *Capitalism and Freedom*, we read that a country is, “the collection of individuals who compose it,” nothing more. There is no national purpose other than what individuals strive for. Morally, there can be no judgement on the desires or actions of the individual. There is no moral truth to be found. Friedman has said that to suggest that there is “sends shivers down [his] back.” Might is left to make right.

What does this mean practically in the realm of political economy? The purpose of those in commercial enterprise is patently simple for Friedman. It is to “make as much money as they can.” People are to be given what they want which is automatically taken to be what they ought to want since there is no objective truth about the human constitution. This pursuit of capital takes precedence over labour. The ultimate end, the summum bonum, is the accumulation of capital. Labour is a means in this accumulation process and may come to be treated as a mere cog in the machine as immortalized by Charlie Chaplin in *Modern Times*. If the human being possesses no dignity, then the dignity or lack thereof of what that individual atom of materiality is given to do is hardly relevant. Compensation for this work is whatever the market will bear. Since labour is a cost item, the lowest wages possible will be sought. The right of labour to associate will be respected to the degree demanded by law and no more, if that, since union power is countervailing. Greater profits can be made by dumping costs onto society or by achieving monopolistic power so these means are available to use. Demand can be stimulated
through relentless advertising and the claims made need not be truthful. After all, who is to say
what truth is? The economic power given by capital accumulation can be used to coerce
favourable conditions out of government. An attitude of reverence for the natural world is lost as
it comes to be seen as a quarry to be exploited for greater profits.

The significance of the study is that our institutions need to be supported in our
consciousness. They cannot be created and sustained out of nothing but must arise and be upheld
by our beliefs and aspirations. The diagnosis of our cultural condition is that we suffer from bad
or scattered thinking on a metaphysical level. If scholarship in the area of Corporate Social
Responsibility is to be of value it will have to restore the eroded foundations of our knowledge
system. Otherwise we will remain adrift living parasitically off the moral capital set down by
classical realism. Triumphant ideology will continue to drive us to individual and collective
destruction, no matter how much we implore organizational leaders to be good.
THE PRICE OF SOCRATES
Intrinsic Motivation and Civil Organization Responsibility
Luigino Bruni and Alessandra Smerilli

Introduction: from CSR to COR

In the today market economy there are many kinds of experiences under the umbrella of “Corporate Social Responsibility.” (CSR)1 Probably some of the CRS practices do not need to refer to some kinds of “intrinsic motivation” or “gratuity” in order to understand their social actions: it can be enough to use the standard economic logics based on incentives and instrumental rationality. There are, however, a subset of “socially responsible” firms and organizations, that in this paper we call “Civil Society Organizations” (CSO). This type of organization is characterised by intrinsic motivation and gratuity. For these organizations, therefore, to be responsible is part of their identity and mission. In order to avoid confusion, in this paper we shall speak of Civil Organizations Responsibility (COR), where the second term - organization - would mean that the domain of application of these activities is much broader than just “corporate.” CSO are, for example., non-profit organizations, charities, NGOs, and, more specifically, those realities born on the basis of a “vocation” that represents the identity and the missio of the organization. Therefore, not all non-profit or civil society organizations are CSO, but only those characterised by an ideological mission. Non-profit organizations, instead, can be only defined on the basis of a legal constraint of non-distribution of the profits. In other words, in a CSO the main activity could not be separated from the outcome the organization wants to reach: the activity is part of the objective.2

Their distinctive feature of such organizations is the presence of an ideal motivation in his members, at least in some. When a CSO operates in the market, its main objective of an CSO is to evolve and grow without losing its missio, to which is linked its survival in the long run.3

Our intuition is to take seriously the role of the motivated people in such organizations. In CSO intrinsically motivated people - persons with a particular vocation - play a key role. Because unlike standard for-profit firms that are based mainly on extrinsic motivation, in CSO the nature of the organization is deeply linked with a mission or “vocation.”4 This mission is embodied in those particular people who have created such identity, and for this reason when some of these people

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1 Bruni (2006) distinguishes three forms of CSR called “cautious,” “brave,” and “gratuitous”. What we call here civil firms belong to the “gratuitous” type.

2 In order to understand the CSO’s peculiarity, let us illustrate what a CSO is not: organizations, for example, whose only purpose is to maximize profit, or organizations in which the activity is just instrumental or only a tool for optimizing something else. In Maffeo Pantaleoni and Luigi Einaudi’s words, such entrepreneurs have to be called speculators because they move from an industry to another, due to the fact that their motive is the profit and not the activity itself.

3 In a broader sense, can be included in the category of CSO many forms of organizations They even include small family-based for-profit firms, whose development and survival are seriously challenged after the first generation of founders, as it is occurring in the Italian district of the Made in Italy. These small firms, once the first generation retires meet a huge difficulty in finding in the market new managers who are able to save the identity and the business culture impressed by the entrepreneur. This culture represents the main competition strong point of the firm and is able to express of the know-how and culture of the entrepreneurs. CSO can or cannot face consumers or market demand. But the most important thing we would to refer in this paper is “formal” civil organizations, consisting of members and managers and not family or a group of friends who meet for a party.

4 We use the term “vocation,” “ideal motivation,” and “intrinsic motivation” as synonymous. In fact, it is then easy to understand that between ideal motivation or vocation and intrinsic motivation there is a very strict link. There is no ideal motivation without intrinsic motivation for the activity carried out.
leave the CSO always meet a *critical* passage that, if fails, can undermine the growth and surviving of the CSO itself.

In this paper we shall deal with such a critical passage when some of the intrinsically motivated members of the organizations leave. In particular, we shall consider the case when the exit of such key members depends on a non pluralistic governance that does not allow ideally motivated members, such as, the founders who “voice” for a deterioration of the motivations quality to remain in the organization and pushes them to abandon the organization. We shall show that the effect of a loss of an even small number of such intrinsically motivated members can have important and relevant effects in the organization culture. Our analysis makes use of two theories: Hirschman’s (1970) distinction between price and quality competition (§ 2) and the “critical mass” models (§ 3), developed basically by scholars such as Thomas Schelling (1978) and Mark Granovetter (1978) in explaining cultural changes in society. Our contribution will be to combine these two theories and to apply the analysis to CSO and COR.

The main purpose of this paper is to analyse which kind of dynamics operates when intrinsic or ideal motivation begins to deteriorate. These kinds of crisis are important in every organization, but they are crucial in CSO. In particular we shall examine the relational mechanism that can lead the most motivated people, those who are more interested in ideal motivation, to abandon the organization when they see ideal motivation deteriorating. In fact, given that a crisis affects firstly the most motivated people, if they do not have the possibility of “voice”, they will abandon the organization using the “exit” option. But if the most motivated people leave, the organization could precipitate in a mortal trap.5

2. The *often forgotten* distinction between price and quality

No organization could work on the only basis of contracts; it needs, to some extent, motivation that goes beyond profit and material incentives. The most obvious example of this idea is represented by sit-down strikes, situations where organizations collapse because everyone does only what is written in his/her job list.6 This evidence is obvious for people working in organizations, but it is at the same time ignored by economists.

However, in CSO intrinsic or non-instrumental motivation are extremely important, and our aim is to show why.

Our starting point is stated in a classical essay, called “Exit Voice and Loyalty”, written by Albert Hirschman, whose ideas has never been applied to CSO.7 Hirschman’s hypothesis is that “competition of quality” and “competition of prices” are mirror-like.

Education – where CSOs are usually present – is a good example of that the previous statement. Here we would like to give a quick historical sketch that can help to understand the issue at hand. In the sixties, the time in which Hirschman wrote his book, in the United States of America. there was a discussion about Milton Friedman’s proposal of introduction of vouchers.

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5 It must be noted that, even if the deterioration of intrinsic motivations within the business is not directly linked to the intrinsic motivations of the clients of the organisation, it still has an effect on them. In other words, the negative effects of the deterioration of intrinsic motivations do not depend on the weakening of the idealism of the organisation’s clients, but if these clients “demand” idealism and find less of it, *coeteris paribus*, they tend to leave.

6 Another way to affirm the same reality is to say that contracts are incomplete. Incomplete contracts in their turn generate space for what is not negotiable and, off course, for conflicts. However, we think that even though perfect and complete contracts could be created we would still observe space in the organisations for not instrumental actions and for gratuitousness.

7 There was much enthusiasm for Hirschman’s book when it was first published, but after a few years, that enthusiasm waned and in the last two decades, his work is seldom spoken of in economics. To the best of our knowledge, his model has never been applied to CSO. It is, therefore, worth re-examining that small but inspiring book and re-tracing his line of argument in order to analyze the object of our study.
Vouchers give families the “exit” option, in order to create the market mechanism into the management of educational system. If they do not like the goods, they can choose the “exit” option, which means they can change school.

Hence, the exit option offers a signal to the organization that, by acting in a rational way, they could try to improve the quality of services in order not to continue to lose customers. According to Hirschman, the introduction of vouchers creates a typical case of quality competition. In the case of quality competition, however, market works in a different way compared with the classical case of price competition. In particular, in the case of quality competition, the typical market mechanism, such as, the “exit” option generates a sort of “adverse selection.” Let us show why and how.

In mainstream economics, the consumers’ demand represents a function which links quantity, income and price, and a change in quality is considered equivalent to a change in prices: “an article of poor quality can often be considered to be simply less in quantity than the same article of standard quality; this is the case, for example, of the automobile tire which lasts on the average only half as long, in terms of mileage, as a high quality tire” (p. 44).

Therefore, economics considers quality competition and market competition as similar phenomena. A quality decline is considered equivalent to a rise in price that, in Hirschman’s words, “is uniform for all buyers of the article” (p. 48). In this approach, a fall of quality of a good would have the same effect, in terms of customers’ demand, than a rise in price.

There are, however, snares hidden in this non-distinction. This is the main message of Exit, Voice and Loyalty. In fact, in the traditional analysis of competition, when the price rises the marginal consumer who exits from the market is the one who cares less about the good, that is the one who has the smallest reservation price. We are dealing now with non-perfect competition, which means sellers have the power of increasing or decreasing quality or prices, because the products, for example different schools, are non-perfect substitutes. So the consumer who exits is the “worst” one in the market, in the sense that he/she does not value the good, a particular school, as much. In this case the rise of price is similar to the rise of the bar in a race of high-jump: those who remain in the competition are the best.

In figure 1 below, customers are put in a decreasing order as regards their reservation price. Suppose that we have three consumers, A with the highest reservation price, say 20, B 15 and C 10. When the price of the good rises, quality being equal, consumer C in our example, will be the first one who leaves the market. B and A, who appreciates relatively more that good, who have a higher reservation price, will remain, instead, in the market. Also for these reasons the market mechanism based on prices is normally seen as an efficient tool for a good society because it selects the best subjects and gives to the inefficient ones the right signals. For this reason, the economic theory sees with suspicion the customers’ protest (“voice” in Hirschman’s words) because it creates friction to the efficient market mechanism by consuming time and by raising the transaction costs, and as a consequence, it can maintain inefficient firms in the market.

Moreover, economists prefer assuming an elastic demand: the faster the reaction of the demand to a variation in prices, the more efficient the market is. Voice, instead, slows this virtuous mechanism.
What about the quality competition? According to Hirschman, normally it could happen exactly the opposite: when there is a deterioration of quality, price being equal, the subject who tends to exit first is the most sensitive to the quality. This consumer, then, does not correspond to the marginal consumer that would exit in case of a rise in price. This is because the price increase which corresponds to a particular deterioration of quality, frequently different for different customers of the article because appreciation of quality differs widely among them” (p. 48).

In this case of quality competition, therefore, the consumers’ order could be reversed: the subject that reacts first to a deterioration of quality is exactly the one who evaluates it highly. Hirschman assumes that the customer who exits first in consequence of a quality crisis - on the y axis there is the deterioration of quality which rises - is the first one in terms of “reservation quality” (A).9

Hence, when there is a drop in quality (the deterioration rises), consumer A will exit from the market: for him/her, in fact, a little deterioration of quality corresponds to an increase in prices that nullifies his/her entire surplus.

What are the consequences of this kind of analysis? If a drop in quality causes the “exit” of the most sensitive parents - who will choose schools of better quality - the result could be a continuous deterioration of quality level of the school because the supply will be re-calibrated on the basis of the lowest standards of those who remain (B,C).10

After the above analysis, it could be easy to grasp how this model fits in the dynamics of CSO.

For example, let us think, as an example, in the CSO such as a fair trade organization, born around an ideal mission that, because of a failure in managing a dimension growth or generational management change, suffers for a deterioration in motivation quality, that is “vocation”. In such kind of situations the organization often comes into internal conflicts.

Hirschman’s model tells us that in such cases we are in a situation in which [ideal] quality is deteriorating. People who protest can be - and actually are always - the most interested in the ideal dimension of the CSO, as in the case of the founders of a CSO who enter into conflict with new managers more interested in market signals and less interested in the ideal identity of the CSO. If

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9 The reservation quality expresses the maximum tolerance in terms of quality: consumer A (fig. 4) with reservation quality of 10 is more sensitive than consumer B who has a reservation quality of 15.

10 In this case there would be a strong polarization: on the one hand, a few elite schools, and on the other, a large number of mediocre schools. A cost-benefit analysis would show a net loss of efficiency, measured on the basis of quality.
the “voice” of the veteres is considered by the novatores only as a “transaction cost” and is not accepted by the management, to those who protest it remains only the “exit” option: to leave the CSO.

But people who leave, this is the point, are those who pay great attention to the ideal “vocation,” so their exit could generate the relevant consequences we will deal with in the next section.

3. The poverty trap

In this final section we shall analyze the poverty trap that a failed change in the governance can generate.

A first vicious circle can be activated by the consumer side, in the case of a market-organization: the deterioration of the ideal quality, embodied in the veteres, as an example, could lead to a loss in terms of “ideological” customers. Most of CSO, in fact, attract customers and sponsors because of their social value associated to the production of positive externalities. Most of the people fostering CSOs, in fact, perceive them as a sort of “merit good”. When losing its ideal quality, CSO creates the conditions for losing customers interested in the ideal scope of the organization - who are, in a certain sense, the “best”.

But the most relevant mechanism we would like to stress here is the “internal” side of the CSO, due to the abandon of the intrinsically motivated members (or of some of them). These two effects – internal and external – strengthen each other, and they can bring the organization into a kind of poverty trap.

Let us analyse more deeply the internal effect. Our hypothesis is that the presence of intrinsically motivated people in a CSO is important not only because these people contribute to the “quality” of the organization, but also because their presence could influence other workers’ behaviour (via imitation). When a sufficient number of intrinsically motivated people are present in CSO, they may have spill-over effects on other workers, who could imitate motivated people to do better job. We can call this “organization culture” that, although created by motivated people - in our case the founders of the activity - permeates the institutional style of all the members. But the key point is to discuss what sufficient number actually means. We use the concept of “sufficient number” in the sense of Schelling’s theory of “critical-mass.” In this approach, “sufficient” means the minimum number that can produce a chain reaction.

Let us suppose that in the CSO there are three kinds of members:
1) the intrinsically motivated workers, who behave as motivated no matter what other people’s behaviour is because they have intrinsic rewards. In the example of intergeneration change of management, the founders belong to this first group;
2) other members who never perform as motivated people;
3) the last ones are members who perform as motivated if, and only if, there are enough other workers to do it.

In a context of heterogeneous agents, the number of “enough” motivated to see in order to start to work harder (such. as motivated) is different for each agent. We call this level of “enough” threshold value.

Having each agent a different threshold value, there exists a frequency distribution of thresholds and a cumulative distribution too. This cumulative distribution \( F(x) \) measures, for any number of workers expected to behave as motivated, the number of workers for whom that number is large enough.

\[^{11}\text{Cf. Bruni and Smerilli 2004.}\]
Thus, if \( n \) represents the number of workers who are expected to perform as motivated in \( t \), the number of people who will perform as motivated in \( t+1 \) is given by \( F(n) \). The equilibrium condition is therefore:

\[
F(n) = n
\]

Graphically, if we put \( n \) on the x-axis and \( F(n) \) on the y-axis, the equilibrium points are those where the cumulative distribution function (c.d.f.) crosses the 45° line. They are stable when the c.d.f. crosses the line from above\(^{12}\).

In the example illustrated in figure 3, in the CSO there is a total of 50 workers, of which about 10 \((m\) in the graph\) are intrinsically motivated people (with a threshold value = 0) and 10 \((nm\) are non-motivated people (with a threshold value = \(\infty\)). In this example we have two stable equilibria. If more than 25 workers are expected to perform as motivated, there will be 40 people working as motivated. In fact, imagine that 30 people are working as motivated. Line “a” in figure 3 tells us the number of people willing to work harder if they see at least 25 motivated people - in other words, people with threshold value equal to 25 - and they are 35. But, if 35 people start to work as motivated, then following the same way of reasoning, tomorrow there will be 40 motivated people, and 40 corresponds to a stable equilibrium. If, instead, less than 25 people are expected to perform as motivated, in equilibrium we shall see about 12 people working as motivated\(^{13}\). In this example we have three equilibria\(^{14}\) (one is unstable), but there are cases, as in figure 4, in which the equilibrium is unique, or cases in which the equilibrium does not even exist. It depends on the distribution of thresholds values.

\(^{12}\) For the demonstration of this see Granovetter and Song (1983).

\(^{13}\) In fact, if 25 people are expected to work as motivated today, the number of people who will work (as the cumulative distribution shows) as motivated tomorrow is less than 25, then this number will decrease until the equilibrium point (in which the number of expected is equal to the number of people who will work as motivated) will be reached.

\(^{14}\) The possibility of multiple equilibria is the result of the presence of strategic complementarities among workers.
In this second example, curve A shows one case with one equilibrium only. Here we have many people with a low threshold value, whereas curve B shows one case in which no equilibrium with some people working as motivated can be achieved. In this latter case, nobody is intrinsically motivated, so the process simply does not start.

Thus, the level of the possible equilibria depends on three factors:

a) the number of intrinsically motivated people (the size of group 1),

b) the distribution of thresholds among people of group 2, whose behaviour depends on how many motivated are present,

c) the number of not-motivated people (the size of the group 3).

The key factor, in order to activate the process, is the number of motivated people.

Now, in the light of this model, what would happen if a crisis reduces the ideal quality of the organization?

As we have seen, if there is not any possibility of voice, the most motivated people are the first ones who threaten to leave.

We may ask why that could happen, due to the fact that the most motivated people are actually those who are willing to do their best even if they alone are making effort. We propose that such kind of members are not totally unconditional cooperators: they do not condition their effort to the number of people behaving cooperatively (their threshold value is 0). Yet, they have a second level conditionality: they cooperate if the CSO’s ideal quality level is kept at an “enough” high standard; otherwise, they do not find anymore reasons for their commitment. We are supposing that intrinsically motivated subjects have a psychological component in their utility function. If that component is sufficiently high, they are willing to cooperate in an unconditional way even though they are aware that unmotivated people could free-ride. But this psychological value is not a constant parameter, it is, instead, a variable influenced by the environment. Therefore, the intrinsically motivated subjects have a kind of “identity constraint”: if they observe that the organization is losing the original ideal identity, the intrinsic component of utility can become too small to justify the continuation of their being “inconditional cooperators.” At this point they can “exit” the CSO. But it is not necessary to suppose this extreme solution. These subjects could simply switch from the first group of unconditional cooperators to the third one (or even the second).

A final step is needed. If the most motivated people leave the organization or stop being unconditional cooperators, the effect on people whose behaviour depends on how many motivated
are working in the CSO could be huge. In the worst case, the high equilibrium could be even destroyed. Figure n. 5 illustrates this case.

The graph shows the case in which before the crisis the equilibrium in the CSO was the high one, that is, a situation with 40 people working as motivated. If some, for example, 6, of the intrinsically motivated people leave the organizations (without being replaced), the loss of motivated people lowers the curve parallel to itself. If the displacement is significant – as in figure 5 where about 6 intrinsically motivated people leave the CSO – then there is no possibility to achieve anymore the high level equilibrium, simply because now it does not exist. Thus the exit of 6 motivated people leads (in this case) to a new equilibrium with only 5 or 6 people working as motivated instead of 40 as in the previous case!

4. Discussion

In this paper we have shown that to disregard the importance of intrinsic motivation can bring CSO into poverty traps. Our aim was to suggest some preventive tools to avoid to falling into such a trap or vicious circle, and that can be very relevant in case of Civil Society Organizations.

Some conclusions and applications deserve to be sketched.

a) Pluralist governance and loyalty.

A first consideration is about governance. A good governance of CSO must be pluralistic, in order to give space to “voice”. When the voice is listened, it is possible that the third option of Hirschman’s model will be selected by the most motivated members: loyalty. In fact, those who protest without leaving the organization are called “Loyal” by Hirschman. Loyalty, adds Hirschman, prevents exit and actives voice (ib., p. 65). Loyalty could be measured by the degree at which the members are keen to exchange the certainty of exit with the uncertainty of an improvement in quality. Loyalty helps the organization to avoid the deterioration becoming cumulative. However, this loyalty is such that it does not become an exit permits for organizations to start a process in which they can recuperate quality. This process could not be activated by the

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15 Of course, only those belonging to the first group were intrinsically motivated: the others (the majority) were imitators.
exit option. Having said that, voice without the possibility of exit does not produce any change. So, the exercise of voice has its critical point beyond which the organization breaks down without understanding the instances of professionalism or efficiency brought in by the new managers. The equilibrium consists of a renewal that does not lead the organization to lose its proper identity.\(^\text{16}\) The possibility of an innovation without a loss in identity is then in a good combination (or mixture) of voice and exit. We think that this discourse is particularly true for CSO.

\(b)\) The civil role of “voice” in the market.

Giving room to voice is important not only for the internal side (governance of the organization) but also for the customers. To allow voice to be present in the internal and external relationships of the organization means to extend the right of citizenship, and to make citizenship more responsible. “Exit” is also a citizenship tool, but it is relationally poorer and less responsible than voice. Why is voice so important for a civil society and for a civil economy? First, voice aims at recovering lost quality: in markets “of social quality”, when important relational and civic dimensions are at work, recovering the lost quality means responsibility; Secondly, voice is more costly in terms of effort and time, and to use the voice option requires a person to decide intentionally to commit to a better civic life. Exit is always an easier solution, although in some cases it may be the only one available. Nobody can deny the importance of the exit option especially in rigid and blocked political situations, but voice is more relational, responsible and civil because it means entering into a relationship with the counterpart, a relationship that the exit option avoids.

Thirdly, voice is more responsible because we can never exit completely from a given market. One can choose to renounce a product because of, for example, ethical reasons, but the product often remains in the market, “polluting” our society (and me). If I feel a sense of belonging to a wider civil community, I will do my best before playing the exit option, especially in markets particularly relevant in terms of social responsibility. Finally, in market “of social quality”, such as education, older people services, healthcare, social care, etc., we underestimate the cost of the exit in terms of relationships: relational goods are usually fostered by voice and threatened by exit.

c) From CSR to COR: the perspective of CST

From the CST perspective, the simple CSR is not enough. It is something positive for civil society but a peculiarity of a Christian-based organization is the role of intrinsic motivation. A good society fosters vocations, also in the economic domain, and organizations based on vocations foster a good society. In this paper we have proposed to pass from the standard CSR to COR, where the latter concept is strictly related to the role of intrinsic motivation. The analytical part of the paper is just an attempt to show how important it is the role of intrinsically motivated people. In the Christian humanism, life in common (in politics, family or market) is not just a result of an invisible hand mechanism that transforms private interests into common good. A good society needs also genuinity, gratuity and non-instrumental actions because the key anthropological principle of this humanism is the personalistic one, which states that the human person, their motivations, freedom and rights, is the center of any institution and organizations.

d) Sociality and relationality

A COR approach needs “relationality” not just “sociality”, where relationality means “to refer to kinds of human interaction in which the identity of the participants as particular human beings has affective or cognitive significance” (Gui and Sugden 2004, p. 1).

\(^{16}\) Interesting tools for helping the organization to evolve without losing its proper identity are discussed in Pelligra (2004).
The word “citizen” comes from *civitas*, and *civitas* means not only the principle of equity, but mainly the principle of reciprocity, personalized relationships. For this reason a corporation and a market looking for responsible citizenship cannot be content with social responsibility alone: it needs “civil responsibility.” Thus, the “civil consumer” has its duty, if he/she wishes to be civil, to enter into a relationship with the firm, and the “civil company” has to recognize the right to voice and to participation of the consumer-as-citizen who, in this way, becomes a “pro-sumer”, that is consumer and producer at the same time. In some markets, in fact, civil consumers and civil companies are more urgent than in other markets. We are referring to the above mentioned “market of social quality”, relational markets where the most important quality is not codified and depends heavily on the capability of the firm of involving the consumers-citizens in conceiving and producing the product or the service.

**A concluding remark: the price of Socrates**

Civil Society Organizations live on intrinsic motivation: customers request it, and it cannot be bought on the market. Generally, a society without intrinsic motivation or without non-instrumental behaviour will hardly be a decent society.

For this reason, we think that the model we have presented in this paper has a broader field of applications than just CSOs. We choose CSOs because here the intrinsic motivation element or vocation is immediately found out as a key ingredient in the existence and success of the organization. Many organizations, however, have a tremendous need of intrinsic motivation and vocation: it is not gratuity and genuinity that we are looking for in political parties, in sport athletes, in artists, and at the end in our friends? Probably, it is only a hint, without some degree of vocation no organization can be a fully human place and survive long.

Vocation is at the basis of every success in life, but market cannot supply it. For this reason the “value of vocation”, the “price of Socrates”, is very high in today organizations and societies: “I tell you that virtue is not given by money, but that from virtue comes money and every other good of man, public as well as private” (*The Apology of Socrates*).
Can You Buy Trustworthiness? An Experimental Study

Vittorio Pelligra

“Trust[worthiness] is an important lubricant of a social system (…) Unfortunately this is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought” (Arrow, 1974, pp. 23-24).

A social responsible organization ought to be responsible first of all to its “internal society”, promoting, for instance, the conditions that favor the flourishing of fulfilling human relationships. If, as Matthew Rabin put it few years ago: “Economics should be concerned not only with the efficient allocation of material goods, but also with designing institutions such that people are happy about the way they interact with others” (1993, p. 1283), this appears to be also a matter of economic theorizing.

There is nowadays a wide consensus on the fact that one of the principal determinants of both individual well-being (Helliwel, 2002) and organizational success (Kramer & Tyler, 1996) is the existence of relationships based on trust and trustworthiness.

Standard economic models, however, where agents are depicted as individualist, consequentialist and materially self-interest, show serious limitations when confronted to the phenomenon of trust. This inadequacy is not neutral; as noted by Robert Gibbons, in fact, there exist the risk that: “management practices based on [incomplete] economic models may dampen (or even destroy) non-economic realities such as intrinsic motivations and social relations” (1998, p. 130).

A growing number of studies are devoted to the amendment and enlargement of the simplistic model of economic agent and one of the most interesting area of investigation refers to the interaction between motivations (intrinsic and extrinsic) and incentive and sanctions.

Economist generally maintain that reducing the cost of a certain behavior leads to an increase in the frequency of that behavior or, in other terms, in the subject’s willingness to perform a certain task. That means that the relationship between extrinsic incentive and effort is supposed to be always monotone: effort increases with positive incentives and decreases with negative incentives.1

Psychologists, however, suggest that material reward and sanction may give rise to conflict between intrinsic and extrinsic motivations that may even yield counterproductive outcomes especially in activities that people undertake for their own sake, rather than as a means to some other end.

Trustworthy behaviors imply always a material cost and it seems to be, at least in part, based on intrinsic motivations. How the reduction of such a cost, or the introduction of a material reward affect people’s choices in a fiduciary interaction?

In this paper I present an experiment designed to investigate the effects of material rewards on agents’ trustworthiness. Are trust and trustworthiness reinforced by material incentive or are they crowded-out? This is precisely the question that the experiment will address. The data show that paying for trustworthiness increases opportunism.

This result has profound implications for compensation and general human resource policies. A socially oriented organization, or a “good company”, should take this evidence into account by, for instance, designing work environments, relational schemas, compensation policies and other incentive provision systems, in a way that respect agents’ intrinsic or vocational motivations as well as their psychological, relational and moral ones.

1 As long as income effects are smaller than substitution effects.
A fiduciary interaction can be formally described by a trust game like that depicted in figure 2. This game incorporates all the relevant features of a fiduciary interactions: \( \alpha \) conditional gain; \( \beta \) conditional loss; \( \gamma \) temptation (or risk of opportunism).

Point \( \alpha \) implies that if B behaves trustworthily choosing “across”, a trustful course of action, A can be better off relative to the status quo \((a,d)\). This is described by the condition \(c>a\). Point \( \beta \) means that if B chooses not to fulfill A’s trust, A will be worse off if compared to the status quo. This is captured by assuming \(b<a\). Point \( \gamma \) describes that once A has chosen to trust, B has an incentive to betray that trust; B is subject to the temptation of the opportunism. This is formalized by the condition \(e>f\).

Figure 2. The Trust Game

\[
\begin{array}{ccc}
\text{A} & \text{B} \\
(a,d) & (b,e) & (c,f) \\
\end{array}
\]

\(c>a>b; e>f\).

The Nash equilibrium of this game is given by both player A and B playing “down”. Such an outcome is clearly suboptimal with respect to a situation when player A trusts B playing “across” and player B respond trustworthily choosing “across” as well.

A large amount of data has been gathered in many controlled experiments that shows how people chooses this “irrational” combination of strategies much more often that the theory would admit. The explanations for such findings can be many: altruism, inequity aversion, reciprocity, trust responsiveness. Elsewhere (Pelligra, 2006) I have discussed the relative merits of these alternative theories; from the analysis of the available evidence, it emerges that the principles of reciprocity of trust responsiveness seems to account for trust and trustworthiness in their pristine form (Bacharach, Guerra & Zizzo, 2004; Guerra & Zizzo, 2004; Pelligra, 2005, 2006a). Reciprocity, however, can explain trustworthiness only in a limited subset of all the trust interactions (Pelligra, 2006b)

In this paper I am interested in investigating, a more limited, although crucial, question; the is how the willingness to behave trustworthily or opportunistically is affected by the introduction of material incentive.

We can think of different variants of the trust game to introduce different levels of reward to trustworthiness. Such a reward is nothing but what the trustee gains from her trustworthy choice and can be operationalized as the difference between \((f-d)\). When such a difference is positive trustworthiness is associated to a material gain for B.

Data show that the highest number of trustworthy responses occurs when there is nothing, in terms of material reward, to gain from them, and the lowest number when the material reward is highest (see figure 4). Trustworthiness is, then, discouraged by the introduction of a material incentive.
Figure 4: Trustworthiness and material gain

This result can be accounted for by focusing on the role that sanctions, rewards and prices play into an interpersonal relationships. They, in fact, are not only psychological stimuli or media for an exchange, they are also signals. Fehr and List (2004) reports of an experiment designed to analyses how subjects react to incentive when trust and trustworthiness are involved. In their setting pairs of players interact in two different game. The games are similar in any respect apart from the fact that in one, the trustor can punish the trustee if she chooses a mean strategy. The results show that when the punishment is available but not implemented, the agent exhibits significantly more trustworthiness than if the punishment threat is not available. By choosing not to punish when she could have done it, the he trustor sends a signal of trust that frames the interaction as a cooperative one, and induce more trustworthiness.

When material rewards or sanctions are introduced into a trusting relationship, the signals that they send re-frame the relationship in a way that it begins to be perceive more as an economic exchange than as a genuine social relationship. While a genuine social relationship is generally governed by a norm of non-instrumental and gratuitous behaviour, a market exchange, on the contrary is grounded on instrumental and calculative rules.

Such a re-framing occurs whenever a subject receives a material reward to do something that she would have done voluntarily. The un-expected reward tends to transform the interpretation of the situation the subject is acting in, calling for a set of motivations that usually operates in a different context. A material reward transforms the relationship among the participants from one where trustor and trustees cooperate to achieve a shared goal, to one where the subjects separately try to achieve different and contrasting goals as in the market.

A fiduciary relationship that implies a mutual concern for each others’ interests cannot be mediated by the market. Kenneth Arrow expressed a similar idea which synthetically qualify the results of the experiment, when noticing that “Trust[worthiness] is an important lubricant of a social system (…) Unfortunately this is not a commodity which can be bought very easily. If you have to buy it, you already have some doubts about what you've bought” (1974, pp. 23-24).

References

1 – The establishment of Tessitura G & R

Tessitura Grandi & Rubinelli s.r.l. manufactures entirely-made in Italy medium/high-quality woven fabrics for shirts. It was officially established in 1992 by Remo Grandi and Ubaldo Rubinelli, even though its roots dated back to some years before in an encounter among the two founders. At that time they both were having negative experiences in the textile field, but thanks to these first contacts, once those experiences were over, Remo and Ubaldo decided to unite. They wanted to try to make a dream come true, a dream they both had been cultivating for some time: to create something in which people could work in the best way possible, serenely, in spite of problems and difficulties.

This dream had several dimensions: first of all the centrality of the person as founding element, then the wish to call into play one’s own talents and experience, in order to involve all employees as well. A third facet of this dream is unity, in which the two owners have concretely gained experience: in fact, if at the beginning there could be some difficulties due to their different characters, after some time the two founders learnt to work together and unified their direction.

The discovery of Chiara Lubich’s thought then confirmed this path; especially her ideas on the economic life were appreciated, even without taking part in her movement. From the beginning the entrance of new members has been gradual, and little by little the dream has been coming true. Comparing previous work experiences made the two founders conscious that the new reality, though facing typical initial difficulties, was much more positive and fulfilling in results. This was due not only to the group’s capability, but also to the awareness of doing one’s job as a mission. This allowed everyone to learn from the others and grow through teamwork and mutual support.

From this new experience Remo and Ubaldo discovered their role as entrepreneurs in a field like the textile one in the Italian context, which characterized itself for being not very remunerative and already in crisis. For these reasons it was a matter of risking, going forward and aiming high, though keeping reality in mind.

2 – G4 actual organization

Board of Directors (G4) is formed by the two partners and two senior employees, who, in short time one after the other, joined this group with managerial functions. The two new members came from negative work environments too and the choice of being part of Remo and Ubaldo’s group required a big change in their work.

The secret of the group is sharing at various levels: from the analysis of economic scenario to the strategic plans passing through development and investment prospects, personnel and price policies. Other important aspects are investment planning, staff plan and responsibility of each of the coordinated areas, including solving of any possible related problems.
If at the beginning G4 needed fixed schedule to meet, currently the group mostly meets in case of need. This result is due to the fact that sharing has become part of the work style.

3 – G8 actual organization

Along with the Board of Directors a managerial group of 8 people was created (G8): they contribute to the practical management of business, through the sharing of goals, problems and solutions. Members of this group are people responsible for the following departments: production (2 people), customer service (3 people), marketing and development (1 person), accounting (1 person) and human resources (1 person).

Inside this group problems faced are clarified, as well as available resources for solutions. Members try to identify consistent and eventually corrective behaviours. This way of working allows the integration of operations on behalf of every productive department and the sharing of tips, ideas and assumptions in order to improve the efficiency of teamwork.

Some members of G8 share and manage everyday assignments personally, whereas other members manage operative groups - made up of the employees of their own department. As a matter of fact people in charge of production, customer service and accounting department transmit this style to employees that belong to their own work groups. Each department meets regularly to evaluate work done, point out problems, suggest any eventual necessary interventions, schedule activities and so on. This way, all decision making processes are based on groups, both practically and structurally. The result is that all decisions are deeply shared and responsively acted, without needing a general manager that collect all proposals and instances and decide about them.

G8 joins G4 forming G12. This group shares strategic choices - such as development policies of business - as well as successes and difficulties. Every member updates the others on the status of choices and activities that had been determined during previous meetings, on problems met and achievements reached. The priority-lines of action referring to each single department are defined and shared, as well as a dialogue on specific matters or problems that are linked to the company staff.

4 – Relations with the company’s stakeholders

The key factor that enable sharing in the company’s activity is the person. The person is the actual node of any economic and industrial activity, regardless of the played role: worker, collaborator, manager, customer, supplier, competitor.

Relation with the customers, agents, suppliers and subcontractors

Sharing values and objectives and enjoying reciprocal relationships with clients at every level is the basis for manufacturing with a sense of purpose and satisfaction. Collections are created reflecting this way of working together.

A good part of our production consists of exclusive designs, which develop from the direct cooperation between the single customer and the company’s designer. This way finished product isn’t only the fruit of an offer, but also the result of a “reasoning” with the customer.

The great variety of our customers (some are very small, some other very big), could cause some difficulty in management, since their exigencies and requests are different. However, the service that is offered and the product quality are the same, for both small and big customers.
Moreover the highest flexibility possible is offered to both of them; this flexibility is an integral part of the service personalization.

Another important element that is offered is the care in answering to the customer’s requests, preferring to give a reply, even a negative one but immediate, instead of keeping the customer on hold.

Choosing transparency means offering fair prices to all kind of clients – just from the start. Relationship with customer is managed in cooperation with various agents. From them it is expected the closeness to the company in view and aims instead of commercial aggressiveness. This makes possible to work together basing on a common ground in order to decide on choices and strategies, taking into consideration the risk of possible commercial defeats.

Relationship with subcontractors is also relevant. They are not seen only as executors, but are entirely involved in the company’s productive choices, obtaining all the reasons and explanations necessary for operations.

The company tries to develop this kind of bonds with its suppliers as well: in choosing them price is not the only decisive item, but much importance is given to a “special” partnership based on mutual faithfulness.

Relation with the personnel

Two typical characteristics and strong points of the company are teamwork and the attention to the person.

In order to allow every employee to feel as a part of a wider project, the company favours the sharing of information and choices at different levels; not only are the necessary aspects for everyday work shared but also – however possible it may be – the company’s strategies.

This view is shared by most employees, who therefore feel as an active part of the company. A certain disagreement can be met above all among people coming from different working experiences.

One of the fruits of this way of working is the development of a positive influence among the employees; it is completely spontaneous and helps create a good work environment.

The contribution that everyone can make to the others finds one of its expressions in the sharing, inside G8, of any very concrete problem connected to the employees. This enables any member of the group – also the ones who aren’t concerned directly – to be informed and be able to offer any suggestions and help to solve the case.

The person’s centrality implies that though each worker is part of a work group, he/she has all the instruments necessary to work autonomously. In this way the employee takes full possession of his/her own role, perceives the responsibility of carrying it out well, faces it with spirit of sacrifice and has the opportunity of increasing his/her own professionalism.

This has allowed, in the course of time, the emergence of professional figures - managers too - favouring internal growth.

These people have a complete vision not only of the role they have been able to carry out, but also of whole productive chain - and the company organization in general - so that they are able to act as mediators between the exigencies of single worker and those of company.

Another consequence of importance given to the person’s centrality is the way most difficult “cases” are faced. The usual procedure is not to cut off the relation, but to give time...
and instruments to the worker, through a delicate mediation between understanding and
determination, in order to solve his problems.

The attention to the person finds expression also in the company’s contract policy: we
usually prefer to use indefinite contracts, and when a woman is absent due to pregnancy and
motherhood, she keeps in contact with the company and once she comes back to work, she
feels valuable because either she finds her own job again or she is involved in any job
changes.

The attention to local community is expressed in both the creation of good
relationships with the local authority and the choice of favouring, when hiring a person,
people that live near the company.

Attention to security and environment

The person’s centrality may also be perceived in the company’s special attention to
security, especially the way plants and machines are arranged, and the creation of a
comfortable and person centred setting.

A special attention is given to work environment; for this reason, when the company
moved to its current site, it was immediately decided, in spite of the costs, to offer a safe and
comfortable place thanks to the choice of colours, the layout of spaces, the creation of the
company’s canteen, the furnishing style and the attention to cleanliness.

The value card

These are roots of manager staff experience, who elaborated a value card describing
their business style, ideas and values by confronting with Board of Directors, so that business
experience becomes qualifying for all.

As first step this card has been presented and given in personal copy to all employees;
later all employees have been involved in training groups to share ideas, ways of living and
concrete proposals to make all described value continuatively acted.

In everyday working life we can specially trust the “older” group - 20-25 people -
putting this way of working into practice, trying to make the newcomers feel part of the
company.

“Miscellaneous issues”

From the basic approach emerging from the value card, some solidarity projects
develop at Christmas and in case of sudden emergencies.

At Christmas the company offers every employee an unassuming gift, in order to assign a sum
of money in favour of two projects: one to some missions in developing countries and the
other to local voluntary associations.

Generally there are two times in the course of the year (at Christmas and Easter), when
everybody stops their work and all the team gathers together. These occasions aren’t just
meant to exchange wishes and to celebrate, but they can be useful also to put into practice
sharing, which is at the basis of the value card.

Normally, during the meeting at Christmas, all employees receive a short update
regarding the company’s progress and the staff.

The same principle gives rise to extraordinary meetings in order to share important
choices that the company has put or will put into action, such as the handing out of the value
card, the visit in the new seat and its inauguration.
An event that is repeated every year is the company’s trip, in which most part of the employees takes part, together with some relatives.

Good Company: From Strategy to Sharing Through Accountability

Elisa Golin and Giampietro Parolin
- part 2 -

“doing strategy is like learning biking while bike is invented”

Igor Ansoff

From reality to concepts

We met Tessitura Grandi & Rubinelli a few years ago and started walking together, through a consulting service, to discover and share with all employees a way to be what we’re calling in this meeting, a Good Company. In fact G&R was already a Good Company but it had grown up, and all people, specially whom had accepted a managerial responsibility, had to participate intentionally to the company culture and choices.

As a matter of fact being a good company is mostly an intentional process: it is first of all, as we’ve seen, an entrepreneur intentional way of managing his business. And it becomes a managers matter when management is appointed and has to share business corporate culture.

From our point of view the interesting contribution of this business case is the fact that they have taken inspiration both from CST and state of art management techniques complicating and enriching the unique process, that goes from defining specific objectives to be included into corporate strategy, to breaking them into planned actions and accountable outcomes to be shared with people involved in value creation.

In the case of Tessitura Grandi & Rubinelli it is concretely shown how CST, though theoretical and oriented to general principles, can give a broader and deeper perspective to business action when put in dialogue with pragmatically management approaches.

There are some keywords, and it’s easy to figure out the source, that can help us in focusing the way it has been chosen to make people feel and experience a good company, before accounting the effects:
- Community, as company identity experience
- Subsidiarity, as a process to valorize, exploit and make effectively integrated internal, personal and professional resources
- Solidarity, as capability to respond to internal and external needs.

Community

A typical idea of the CST is that of the job community, the opportunity for people working together to build and to experiment the dimension of community. Christian community is characterized by dynamics of ideal and material sharing, sense of affiliation, decisional share that CSR has certainly focused with objectives and different names.

The center of each community is the recognized value of every person, bringing her/his resources in the working context that assumes and entire meanings by law and of duty.
Accepted that community is a context where the person can find realization and fullness, in this meaning the Good Company finds its fundamental identity.

This idea reminds us Barnard’s “conditions of communion” as (...) the feeling of personal comfort in social relations that is sometimes called solidarity, social integration (...)

It seems to us that the experience of an intentionally application of CST inside a company can spread important ideas that CSR hasn’t developed yet. Specially we can think to most recent HR management methodologies, as teamwork, internal accountability, empowerment … each of them assuming the person as a center of working processes.

These aspects are very important for people well being, but also in reaching business effectiveness and efficiency: they are rarely mentioned by CSR literature, where external consequences or inside unfair behaviors are much strongly emphasized.

In G&R company participation is at the same time means and motive: all people engaged towards common good, nobody excluded. That’s why fundamental activities are circulating information, listening system, involvement … with interesting consequences both for knowledge management and productive processes innovation as for the comprehension of job importance, meaning and sensemaking.

Sensemaking is a relational process based on retrospection (reading after – ex post action): accordingly to this concept people build in common meanings, images and concepts in the continuous flow of action and reflection. “Sensemaking is possible only retrospectively to action. Retrospection is originated and nourished from memory of actions done together and kept in life by storytelling.”

That’s why sharing initiatives and organizations structured by processes are not fancy ideas: in fact they are meaningful organizational experiences spreading around to respond both to needs of people operating in organizations and to challenges economic world actually demands (just think about the issue of knowledge sharing).

An organizational environment that welcomes this perspective “is a communicative context, in which knowledge is a generative process and not just a question of possession, connected with experience. Men and women, belonging to the organization, build together themselves and their organizational worlds, through their cognitive relationships.”

Subsidiarity

Subsidiarity is a typical idea of CST for the human arrangement, probably welcomed nowadays more from the political dimension that from that socioeconomic one: in the economic and business context, in fact, it has direct impact with the efficiency and the order that hierarchy seems somehow to guarantee.

Subsidiarity asks in fact delegation and responsibility break down processes, together with distribution and diffusion of decisional power. Such way of organizing asks for a surplus in the ability of, specially by managers and executives; it demands an effective listening system, where all people can have voice in sharing their ideas, proposal, and problems or difficulties; it requires investing time for team working either at the top either at a line level, in order to guarantee that decisional decentralization is consistent with business strategy.

Undoubtedly this proposal allows to mobilize and increase the value of all company resources, to spread both the business vision and effectively realize the operational objectives. This way makes efficient the investment done in communication, coordination and team-working: a decentralized power improves the ability of prevention of different problems
and requires less time for resolution, it sustains processes innovation and it stimulates knowledge sharing.

Obviously many issues about internal working conditions are managed in advance by subsidiarity orientation, preventing all kind of unfair exploitation, mobbing, promoting instead dignity, participation, listening. This way, management can really take care of creating Barnard’s conditions of communion, letting people looking for solutions, promoting bottom up actions rather than stopping them, helping whenever necessary.

This happens in G&R each time G4 abstains from decision G8 can take, helping to reach the solution and sustaining the working team by G12.

**Solidarity**

Openness and sensitiveness of heart, towards our own brothers, are typical ways of Christian engagement: in the economical field, they concretize in material and immaterial sharing.

A company takes often origin by a sharing experience: sharing ideas – about mission and vision -, sharing capitals, sharing competences and skills – the operative and theoretical knowledge supporting the core business. It is a sharing experience the exchange between workers’ expertise and the company salary, moreover when job engagement improves employees / people quality of life.

Subsidiarity principle can promote solidarity inside company organization, sharing decisions and experiences or supporting mutual help among workers – we can think about job flexibility to balance job loads and efficiency.

Sometimes the seed of solidarity is specifically and explicitly defined by company roots, so that it becomes both for entrepreneurs and employees an “opportunity to live the communion with others, an effort to invent and realize social-economical projects to promote a fairer society and a more humane world”.

Fall downs are inside and outside company: when external solidarity is authentic – and this is the difference from cause related marketing -, an equity and sobriety stile supports it, both in managing employees as distributing profits, managing suppliers and clients, as in relation with the ones helped by solidarity. By this behavior, company really participate to the invite of globalizing solidarity.

This process can give value to company concealed cultural roots and rediscover its identity. Corporate culture is effective only if it is explicit inside an organization and their members consciously share values, styles and typical or expected behaviors.

**Methodological key**

We have said before that G&R was already what we call a Good Company: it was for the reasons of its birth, the values of ownership and management, the institutional and managerial priorities strongly pursued and evidenced. We synthesized this business way in the 3 key words before reasoned on. The key by which we have helped them to spread and to structure in the business management the development of such identity is that of the rainbow, with a methodology we called RainbowScore.

Business and his basic dimensions are conceived as a rainbow, that is a unique and rich phenomena: through seven colors frame we describe seven life and business macro-
aspects and an explicit value creation structure – both stock or flow - from which we can take inspiration for effective strategies, managerial methodologies, accounting and reporting. It emphasizes and make understandable all forms of wealth produced, whenever they’re supported by an ethical or ideal motif.

Red is financial capital, so that we can emphasize financial success as profits, their amount, distribution and added value division, together with:
- effectiveness,
- finance turnover for each product and business market placement,
- the concrete ability in new job opportunities,
- and finally solidarity dimension - inside and outside the business.

Orange as relational capital consider real or potential ensemble of business internal and external relationships, that allows to identify all business stakeholders, reporting to:
- market development, through client satisfaction
- productive contest, with suppliers and business partners
- local community and civil society where business operates
- social and intercultural dimension.

Yellow is corporate culture whose importance CSR has surely evidenced. Some key issues can be:
- definition of distinctive elements of corporate culture, strategically and operatively, to discover the company roots;
- actions taken for sharing these principles and training people involved in business life, considering values a part of this life;
- attention to substantial transparency and legality.

Green as social and environmental quality consider what allows well being in company, representing somehow an health index, both welfare and wellbeing. Focus points in programming and accounting can be:
- psychological and physical wealth protection inside the company
- work climate analysis, expressing relational quality among people working together
- environmental impact
- business and products quality certification
- social capital production.

Blue correspond to human capital and working community, as the organizational setting. Dimensions of this aspect generating added value inside and outside business are:
- infrastructure and organizational processes
- working community, composition and way of growing
- work places, context setting and facilities
- corporate image.

Indigo is intellectual capital, including education, training and innovation. Many ways fit in increasing intellectual capital:
- each knowledge sharing experience, where sharing acts bring the development of what is shared;
- all networking forms (i.e open space settings can help)
- training activities, both spontaneous and structured
Violet is, finally, communication, meaning in its etymology “put in common”, not only in informative sense related to exchange, but also in its deeper meaning that allows information become operational, eventually introducing new behaviors. Communication and information quality can be promoted and evaluated by considering:
- internal dialogue forms and frequency
- partners and employees participation to business life
- outside communication activities.

By this seven colors reporting key we can better understand the reasons of business success and suggests actions to improve it. Meanwhile inner connection among various aspects make manufacturing processes and relational dynamics comprehensible.

Giving to every aspect a value in itself gives the chance to consider every single aspects an entry point to develop all others. Because since in Rainbow seven colors are the same light, inside businesses all choices, all events, all problems are integrated and interdependent on each other. If we look to them, and we manage them considering on the whole, we can make the experience of business harmony, and all components are involved to make business productive and bright.

**Conclusion**

Nowadays economic world and particularly businesses face many challenges, in a perspective made dark and uncertain by globalization and recession. In this context being a good company could seem a further challenge adding more constrains. Meanwhile this same choice can be a further opportunity as source of sustainable competitive advantage.

CSR is more pragmatical and almost immediately applicable to corporate strategy when CST is more theoretical and oriented to general principles. The latter can give a broader and deeper perspective to business action. This way company can be a natural place for dialog between CST and CST when entrepreneurs and managers try an implementation, involving naturally other stakeholders in a path that asks cultural mediation and language tuning.

We know that stating values and objectives is not enough. An objective must be checked and its attainment is verified in relation with effects on other objectives. This path integrates leadership and management through accountability, step by step as we’ve learned from G&R business case.
Introduction

Catholic Social Thought (CST) and the mainstream Corporate Social Responsibility (CSR) movement constitute two traditions concerned to engender ethical business practice. Yet to date they have scarcely interacted. Our thesis is that the mainstream CSR movement can be informed, developed and transformed by interaction with CST, including in terms of extending it beyond its limitations and contributing to CSR systems design. Our particular concern here is to elaborate the implications of this for the design and practice of accounting. We first outline the alignment of accounting with CSR and CST. We then offer a brief critique of the notion of CSR which underpins much of the CSR accounting literature in the English language. We next discuss the principles of CST that may inform a notion of CSR that is aligned with a more radical notion of empowering and emancipating global society. We then consider the implications of such a notion of CSR for the design and practice of corporate social responsibility (CSR) accounting, and, we make some suggestions as to how one might begin to implement in practice a notion of CSR which is informed by the more radical principles of CST.

Aligning Accounting with CSR and CST and a brief critique of the notion of CSR

Accounting has conventionally been seen through a mainstream lens as a functional and technical practice geared to a narrow financial objective: in the case of the business organisation the maximisation of profit or (post Modern Finance Theory) the maximisation of shareholder wealth. Conventionally, accounting is geared to facilitating the achieving of this objective through providing information that makes visible or brings to light what owners and management deem to be important for their decision-making and control purposes. The information that accounting provides thus reflects the values and the ethics that underpin the overarching goal of profit or wealth maximisation in this context. It is important, however, to recognise that accounting has the potential to contribute not only to this particular goal but, indeed, to a whole range of quite different objectives and goals, which in turn reflect different (in the context) values and ethics. The CSR movement, which typically ostensibly problematised the narrowly focused instrumentalism in management and finance theory and practice, also had its implications for accounting: out of the engagement of accounting with ideas and concepts of CSR, an accounting was emphasised that would ostensibly enable socially responsible and even progressive corporate practice. CSR Accounting therefore, on the face of it, embraced positive CSR ideas and values, providing, on the one hand, information for management to engender progressive change in corporate practice and, on the other, helping furnish assessment of the various ways in which a company fulfils its role and discharges its accountability as a corporate citizen. In satisfying this role, CSR accounting, in claiming to go beyond a narrow instrumentalism focused simply on profit or shareholder wealth maximisation, ostensibly provides a range of information, including financial as well as non-financial, about the impact of organisations on the environment and on people and about organisational ethical standards.
Mainstream CSR has, however, disappointed many who were hopeful that the CSR movement would engender substantively progressive change in corporate practice. Critics have pointed to a problematic capture of the CSR movement by business corporations, which consequently has led to a watering down of the enabling possibilities of the concept of CSR. The argument has been made that the type of CSR that businesses promote is still bound up with the ethics and values of profit and wealth maximisation in the problematically narrow and instrumental form. And, likewise, mainstream CSR accounting has been seen as a form of corporate public relations of the more problematic kind rather than an accounting that would address and reflect burning social and ethical issues. The point reached is disappointing in relation to the ostensible aims of the CSR movement. Further, it can be argued that the academic literature on and practice of mainstream CSR and CSR accounting alike are limited in lacking an adequate philosophical and ethical framework for the critique and design of a CSR accounting that would reflect a more substantial and theoretically coherent CSR. Indeed, the case can be made out that much of the CSR accounting literature so far has, in effect, not sufficiently gone beyond current business practice in elaborations about the possibilities of CSR accounting in terms of content, form, role and purpose.

We suggest that CST can inform CSR and CSR accounting by providing a helpful critique with implications for design. For us, the foundational principles of CST with their particular values can provide, through various interpretations, a framework for attempts to arrive at a CSR and a CSR accounting that is genuinely concerned with social well-being in a way reflecting good ethical principles.

**Engaging with the Foundational Principles of CST**

CST is commonly understood to comprise the teachings of the popes and of Catholic bishops from 1891 to today (Curran and McCormick, 1986b, p. ix). These texts contain a body of principles, which are intended to be reflective of a just society and provide some, if limited, guidance as to how such a society may be achieved (Stabile, 2006, p. 7). It is this body of principles we are interested in engaging with and exploring the radical dimension of in our attempt to develop a framework for the design of CSR accounting. The approach that we take to reading and interpreting these texts is based on the premise that these writings may inform our current concerns and actions. Coleman (1986, pp. 186-7) has argued that such an approach has a long tradition and is based on the question “What has scripture formed?” Following this approach to reading and interpreting the scriptures has had a profound influence on men and women who, according to Coleman, ‘have found in them a charter to become concerned about institutional and structural reform, to support organization for justice, to heed the papal call to respect human dignity and to go to the poor’. Our choice and elaboration of the foundational principles of CST in this paper thus reflects our concern with current society, which for us is an unjust society, and our attempt to develop and design a CSR accounting, which is based on ethical principles that reflect a concern to progress towards a better and just society for all. We hold that such an accounting has an important role in facilitating empowerment and emancipation and the move towards a better and just society. The following foundational principles of CSR - as we understand them in terms of their potential envisaged by more radical adherents to CST - are for us especially important in further developing CSR and CSR accounting as envisaged above: human dignity, the common good, preferential option for the poor, stewardship, subsidiarity and solidarity. We outline the key characteristics of these principles and consider their implications for CSR and CSR accounting below.
**Human Dignity**

This principle stresses that each person, regardless of sex, race, age, ethnicity, religion, sexual orientation, economic status, health, intelligence or any other possible differentiating criteria, has an inviolable dignity and is worthy of respect (Stabile, 2006, p. 7). A just society can be achieved when humans are respected and treated according to this principle. This principle also incorporates the notions of equality, relationship and respect for human life. Equality includes equal treatment of persons. Relationship reminds us that although each person has dignity s/he is at the same time part of a community. Respect for human life encompasses all human rights as part of the dignity of the person (Stabile, 2006, pp. 7-8). The implications of this principle for CSR are potentially far reaching. A business organisation would need to have to ensure that all its employees are treated equally and with respect and that their physical, psychological and spiritual wellbeing is not negatively effected but enhanced through its activities and operations. Additionally, this concern would have to extend to the community in which this business organisation is located and to all those more generally who are effected by the company’s activities. Taking this principle seriously in developing the concept of CSR in context would in the final analysis challenge profit-maximisation or shareholder wealth maximisation as the underlying objective of the firm.

**The Common Good**

The principle of the common good is intertwined with the principle of human dignity as it involves the recognition and advancement of the universal dignity of a person (Stabile, 2006, p. 8). The common good has been defined as ‘the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfilment more fully and more easily’ (ibid.). The common good is advanced if the rights of a person to life, bodily integrity and any means needed for the development of life are promoted. According to CST every human institution must promote the advancement of the common good and thus human dignity. This principle also points to the social and relational dimensions of human nature, highlighting that the wellbeing of the individual is linked to the wellbeing of others. The principle of the common good in context directly challenges the emphasis of the business organisation on shareholders/owners and their rights and wellbeing. Incorporating this principle therefore into a notion of CSR would again challenge the objective of the firm as maximising profit or shareholder wealth in context. Instead, it would suggest that companies should engage in the recognition and advancement of the universal dignity of all human beings which implies in the context specific goals of the firm beyond shareholder wealth maximisation. Consequently, the creation of wealth would then take place such that ‘all things created would be shared fairly’ by all (Stabile, 2006, p. 9).

**Preferential Option for the Poor**

The poor and the helpless according to CST have a claim to special consideration. Commentators have pointed out that although this principle is sometimes considered as being included in the principle of the common good it has in effect been a separate principle running throughout CST (Stabile, 2006, p. 9). We also list the preferential option for the poor as a separate foundational principle here especially in light of poverty globally. A comment by Thomas Massaro highlights the significant implications that this principle has on business organisation in arguing that ‘entrepreneurs and investors [have to be reminded] that the proper end of economic activity is the progress of the entire community, especially
the poorest members’ (quoted in Stabile, 2006, p. 9). This, again, is in context a direct challenge of the objective of the firm as defined by economic theory in context.

**Stewardship**

CST teaches that human beings have received from God the world in which they live and all the things it contains. They are thus accountable to God for the way in which they govern the world and the way in which they treat all living creatures and the environment. As with the preferential option for the poor, this principle is now sometimes listed as a sub principle of the common good. We, however, with other commentators, list stewardship as a separate foundational principle in the light of a growing concern with environmental problems globally (Stabile, 2006, p. 9). A CSR based on the notion of stewardship as advocated by CST would thus require that business organisations take the environment seriously. Consequently, environmental concerns would override the concern with profit or shareholder wealth maximisation.

**Subsidiarity**

Subsidiarity here means that neither ‘the State nor any society must ever substitute itself for the initiative and responsibility of individuals and of intermediate communities at the level on which they can function, nor must they take away the room necessary for their freedom’ (Congregation of the Doctrine of the Faith, quoted in Stabile, 2006, p. 10). This principle highlights the importance of community involvement and participation of the individual in the management and governing of social life at the lowest possible level. Such participation in governing life empowers individuals and groups and enables them to achieve their aspirations. The ultimate goal here is the advancement of human development. A CSR that also encompasses the principle of subsidiarity would require from business organisations that they concern themselves with the advancement of human development. This could have a profound impact on working practices and the relationship between employees and management. It also would again challenge a sole focus and/or privileging of profit or shareholder wealth maximisation.

**Solidarity**

This principle highlights that ‘a basic element of human existence is interdependence and relationship; that living as a human means living in community’ (Stabile, 2006, p. 10). Solidarity implies that we are all responsible for all. This responsibility shapes the way we act and interact with other people and the community. It emphasises the need to commit oneself to the common good for all. As with all the other foundational principles of CSR that we have discussed so far this principle, in context, again challenges the objective of the firm and its privileging of shareholder interests.

In summary, CST provides a coherent ethical basis and framework for CSR, which can potentially be globally applied. CST also challenges the values and objectives that currently underpin the activities and operations of business organisations. What impact would a CSR based on the foundational principles of CST have on the design and practice of accounting?

**The Accounting Implications of a CSR based on CST**
Our concern here is to elaborate some of the main characteristics of a CSR accounting that would be meaningful in the context of businesses adhering to a CSR based on CST as indicated above. We have argued that a CSR based on the foundational principles of CST as understood here challenges the values that underpin mainstream economic and social theories of business organisations, their objectives and their role in society. Relatedly, the values underpinning mainstream CSR accounting are also being challenged through a CSR based on CST. Accounting information here has to facilitate management and control in the context of the redefined objectives of the business, namely, recognition and advancement of the universal dignity of all human beings, progress of the entire community – especially the poor members, sustainable treatment of the environment, responsibility for all, and, advancement of human development. These new objectives shift accounting’s current single focus on profit or shareholder wealth maximisation, which is also evident in mainstream CSR accounting, to a multiplicity of focuses thus requiring a holistic perspective in terms of the provision of information. Consequently, the content and form of accounting information properly change. The content - now going beyond information geared towards the maximisation of financial wealth - is much broader and includes, for example, information on physical, psychological and spiritual well-being (i.e. happiness) of human beings locally as well as globally, equal treatment of people, human rights, advancement of the individual (the employees as well as community member more generally) and communities locally and globally, and, sustainability. The form of reporting also goes beyond the current annual report including – depending on who the recipient of the accounting information is - for example, DVDs, videos, plays, songs and poems. In order to ensure cheap, timely and wide access of the information it should be also available on the Internet. Relatedly, appropriate auditing systems for a CSR accounting based on principles of CST need to be developed. In terms of ensuring participation of the individual as well as communities these need to be involved in discussions and decisions about the content and form of internal as well as external accounting information. Given the global nature of poverty and the environmental crisis, and thus the need for a redistribution of wealth between Western and emerging economies, global regulations are also of importance.

Towards the Implementation of a CSR accounting based on CST

Our elaborations have indicated significant changes to the values underpinning the business organisation should a CSR and a CSR accounting based on principles of CST be adopted. This would lead to resistance and implementation thus has to be a process on a continuum towards the desired objective.
ACCOUNTING FOR JUST WAGES: A PROPOSAL
Timothy A. Mahoney

OVERVIEW
Few firms provide corporate social responsibility (CSR) reports, and even fewer report on issues relating to the duty to pay a “just wage” as this duty is understood by the tradition of Catholic Social Thought (see the Compendium of the Social Doctrine of the Church, Chapter Six “Human Work,” V. “The Rights of Workers,” §302. “The Right to Fair Remuneration and Income Distribution”). In this paper I address the question of how a firm might implement a system to fulfill a commitment to pay just wages, and make a concrete proposal for reporting standards concerning just wages.

I. PRELIMINARY ISSUES
1. **Terminology** The English translation of the Compendium (§302) uses the term “just wage,” and characterizes this in terms found in Vatican II’s Gaudium et Spes: “Remuneration for labor is to be such that man may be furnished the means to cultivate worthily his own material, social, cultural, and spiritual life and that of his dependents...” Such language is not readily translatable into operational terms, but the description suggests what is often referred to as “fair wage” or a “living wage,” as well as a “just wage.” While there is no generally accepted definition or methodology of calculating a just wage, one methodology that exemplifies the notion is the formula that grew out of the 1998 International NGO Living Wage Summit: a living wage is equal to “Average family size/average number of adult wage earners x Cost of nutrition + clothing + health care + education + water + child care + transportation + (Housing + Energy/Average number of adult wage earners) + Savings (10% of income).” The calculation of “just wages” should incorporate the value of non-wage benefits such as health care coverage, housing allowances, etc.

2. **Is a discrete disclosure on just wages really needed?** Yes, it is. Paying a just wage is one of the essential components of CSR, so that any adequate reporting of CSR should include specific disclosures concerning this issue. The language of the Compendium makes this clear: “Remuneration is the most important means for achieving justice in work relationships” (italics in original) such that “they commit grave injustice who refuse to pay a just wage” (§302).

3. **CSR Reporting System** Accounting for just wages should take place in the framework of an entity’s integrated CSR reporting system. Only such an integrated approach can fulfill the two important reporting criteria of completeness (which ensures all relevant information is presented) and materiality. The CSR report should be included as an integral part of the firm’s annual report, which traditionally focuses on financial reporting. While a number of firms present CSR reports separately from their financial reports, to do so reinforces the misperception that CSR is of minor importance in comparison to the firm’s financial performance. But this is not correct. If a firm does not integrate CSR information into its annual report, then it provides only an incomplete picture of the firm, a picture that excludes materially important information in evaluating the firm’s overall performance.
II. STEPS IN THE IMPLEMENTATION OF A SYSTEM OF JUST WAGES

1. The firm makes a formal commitment to ensuring just wages for workers. (This might be included in an overall statement of the firm’s CSR commitments.)
   a. An essential issue is the specification of the set of workers to which the firm’s commitment presently extends. Does the firm extend its commitment to all its employees, or just some subset, e.g., full-time employees? Does the firm’s commitment extend beyond its own employees to include those of wholly- or partially-owned subsidiaries? Or perhaps even beyond these to contractors and suppliers? In theory, the greater the extent of coverage the better. But this area raises a host of knotty issues, e.g., can the firm exercise and control over non-employee wages? Hopefully, the range of this commitment could be extended through time.
   b. Another essential issue is whether the commitment presently extends to all the labor markets in which the firm operates. It may be that the firm begins acting on its commitment in selected labor markets as prototypes, and then extends its operational commitment over time to other labor markets.
   c. To ensure the effectiveness of the firm’s commitment, this commitment should be reflected in the evaluation and compensation of the relevant managers.

2. Definition Since there is no generally-agreed upon definition of a just wage, the firm must determine its own working definition of “just wage.” It should document the source of the definition and its justification. As part of its CSR program, the firm should monitor theoretical developments in this area, and change its definition should this be appropriate.

3. Methodology Since there is no generally-agreed upon methodology of determining a just wage, the firm must specify its methodology (including how frequently a fair wage is recalculated). There appear to be two broad approaches, one purely quantitative, one qualitative. Perhaps the most important aspect of a qualitative approach is that it usually involves consultation with workers and other stakeholders. This is desirable in itself as it provides the workers more participation in the firm (see Compendium §281, “Work, the right to participate”). As part of its CSR program, the firm should monitor theoretical developments in this area, and change the definition should this be appropriate.

4. Incorporation into a firm’s payroll system, and thence budgeting, evaluation, and planning “Just wage” reporting must be incorporated into a firm’s payroll system. In addition to the normal information in the system, (including, of course, the actual wage paid) two additional pieces of information should be added in order to track information related to just wages: a) the current market wage for each job classification (and thus each individual), and b) the current just wage prevailing in the labor market. This information will allow the firm to calculate a) the additional labor cost attributable to paying actual wages over the market wage due to the firm’s commitment to pay just wages, and b) for workers whose wages fall short of a just wage, how much in additional wages would need to be paid to these workers in order to bring them to the level of a just wage. These amounts are required for both budgetary purposes and for tracking the performance of the firm relative to fulfilling its commitment to pay just wages.
5. Audit procedures Adequate audit procedures must be in place to ensure that the system is functioning properly, proper documentation and internal controls are maintained, and that information is accurately recorded and processed. Besides the normal internal audits, the firm should hire an independent third-party of recognized competence and integrity in the field of CSR auditing to provide an opinion on the firm’s CSR operations, systems, and reports.

III. REPORTING PROPOSAL

In the CSR portion of the firm’s annual report would be a section labeled: “Just Wages.” This section would include the following information.

1. The firm’s definition of just wages

2. Methodology
   a. A general description of the methodology used to determine the just wage and the market wage within labor markets.
   b. If different methodologies are used in different markets, an explanation for this.
   c. A statement of how frequently the just wage is recalculated
   d. A specification of the set of workers to which the firm’s commitment and reporting relating to just wages extends.

3. Environment and Performance This information is intended to provide a two-year summary of the environment and performance of the firm relating to just wages. I have included in this summary 1) information on the number of labor markets and workers for which the just wage is higher than the market wage, and 2) the value of additional resources (not including administrative costs) related to fulfilling the firm’s commitment to pay just wages. The information in this section probably would best be presented in tabular form, so I present an example on page 5 below. Furthermore, a longer-term trend analysis could be very useful, especially when it is taken together with the management Commentary (see 4 below)
   a. Relevant Markets and Employees Disclose:
      i. The ratio of (the number of labor markets in which just wages monitoring takes place) to (the total number of the firm’s total labor markets).
      ii. the number of labor markets in which the firm does business in which the just wage for the firm’s labor was higher than the market wage;
      iii. the number of workers for whom the just wage was higher than the market wage.
   b. Full just wages: Markets, workers, amounts Disclose:
      i. of those markets falling under 3aii, the number of markets in which workers were paid full just wages;
      ii. of the workers falling under 3aiii, the number of these who were paid a full just wage.
      iii. for the workers included in 3bii (“full just wage workers”):
3.b.iii.1. the total "just wage differential," i.e., the total amount of the wages paid over and above the prevailing market wages for these workers,
3.b.iii.2. the ratio of the "just wage differential" to total prevailing market wages for these workers

c Below Just wages: Markets, workers, amounts Disclose:
i of those markets falling under 3aii, the number of markets in which workers were not paid full just wages;
ii of the workers falling under 3a(iii), the number not paid a full just wage,
iii for the workers included in 3cii ("below just wage workers"):  
3.c.iii.1. the total "partial just wage differential," i.e., the total amount of wages paid over and above the prevailing market wages;
3.c.iii.2. the ratio of "partial just wage differential" to total prevailing market wages for these workers;
3.c.iii.3. the total "just wage deficit" i.e., the total additional amount of wages the firm would have had to pay these workers to bring their wages to the just wage level;
3.c.iii.4. the ratio of the "just wage differential deficit" to total prevailing market wages for these workers.

4. Management Discussion This might be included elsewhere in the CSR report, e.g., in an overall statement of the firm’s CSR commitments, but it should merit its own paragraph or section. This discussion would address the firm's commitment, performance, and plans in this area, including
   a An affirmation of the firm’s commitment to pay just wages, and when this was adopted.
   b A brief discussion of any recent changes in the firm’s definition of “just wages,” or in its methodology for calculating them.
   c A brief discussion of what workers and what labor markets are covered by this commitment, recent changes in either of these, and any plans to change these in the near future.
   d A brief analysis of the reported data, including year-to-year changes.
   e The obstacles to paying full fair wages to all workers, and what steps, if any, the firm is taking to overcome those obstacles;
   f A general specification of what reasonable audit procedures are performed to ensure the integrity of the above information;
   g Any analysis of longer-term trends in this area, beyond the two-year period presented.
## EXAMPLE OF TABULAR PRESENTATION OF “III.3. ENVIRONMENT AND PERFORMANCE”

<table>
<thead>
<tr>
<th>I. Just Wages: Markets, Workers</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Monitored Labor Markets/ Total Labor Markets]$^1$</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td>Labor Markets: just wage&gt;market wage$^2$</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td>% of Total Labor Markets</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Workers: just wage&gt;market wage$^3$</td>
<td>56,000</td>
<td>51,500</td>
</tr>
<tr>
<td>% of Total Workers</td>
<td>25%</td>
<td>24%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. FULL Just Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Labor Markets$^4$</td>
</tr>
<tr>
<td>Workers$^5$</td>
</tr>
<tr>
<td>Just Wage Differential$^6$ (€ thousands)</td>
</tr>
<tr>
<td>Just Wage Differential$^6$/Market Wages$^7$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III. BELOW Just Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Labor Markets$^8$</td>
</tr>
<tr>
<td>Number of Workers$^9$</td>
</tr>
<tr>
<td>Partial Just Wage Differential$^{10}$ (€ thousands)</td>
</tr>
<tr>
<td>Partial Just Wage Differential$^{10}$/ Market Wages$^7$</td>
</tr>
<tr>
<td>(Just Wage Deficit)$^{11}$ (€ thousands)</td>
</tr>
<tr>
<td>(Just Wage Deficit)$^{11}$/ Market Wages$^7$</td>
</tr>
</tbody>
</table>

1. The ratio of (the number of labor markets in which just wage monitoring takes place) to (the total number of the firm’s labor markets).
2. Number of relevant labor markets in which the just wage was higher than the market wage.
3. Number of relevant workers for whom the just wage was higher than the market wage.
4. Of the labor markets in Table I, the number in which all workers were paid just wages.
5. Of the workers in Table I, the number of which were paid just wages or higher.
6. Just Wage Differential The total wages to workers over the market wage for these same workers.
7. Estimated market wages for the relevant workers.
8. Of the labor markets in Table I, the number in which some workers were paid below just wages.
9. Of the workers in Table I, the number of which were paid below just wages.
10. Partial Just Wage Differential The total wages to workers over the market wage for these same workers.
11. Just Wage (Deficit) The additional amount of wages that would need to be paid to workers receiving below just wages to bring them to full just wages.
Assessing the Good Company

Douglas J. Jondle and Robert C. Shoemake

What makes a given business enterprise good? Who decides? Employees, customers, investors, suppliers, competitors, the communities in which the business operates? What assessment criteria should be used? Once criteria have been developed, how are they to be measured? This paper describes steps in the journey of one organization, from developing a set of principles for business to creating a model of an ethical company to building a tool for assessing that firm to examining the results which that tool is yielding to using those results to improve the business.

The Center for Ethical Business Cultures® (CEBC) at the University of St. Thomas–Minnesota is a 28–year old nonprofit organization. It was found by Minnesota business executives as “The Minnesota Project (later “Center”) on Corporate Responsibility.” As the original name suggests, CEBC represents the corporate social responsibility vector at this conference. Though housed since 1988 at a Catholic university, and though its past leaders have included a Presbyterian minister, the Center is not a religious enterprise. It is a secular non–governmental organization whose mission is assisting business leaders in creating ethical and profitable business cultures at the enterprise, community and global levels. Among the many activities undertaken in fulfilling this mission, the Center consults with business leaders and boards of directors and provides ethical leadership development for them and their companies.

A Set of Principles

The Center’s work with organizations is grounded in The Minnesota Principles: Toward an Ethical Basis for Global Business, a document CEBC created and first published in 1992. Against the horizon of what were then the early stages of globalization, these principles were “developed by…business leaders to foster the fairness and integrity of business relationships in the emerging global marketplace.” Designed as a “statement of aspirations,” the principles were intended as a foundation for dialogue by business leaders. The principles have had a global impact. In language and form, The Minnesota Principles provided the substantial basis for the Caux Round Table Principles for Business, now available in sixteen languages and used around the world.

The Minnesota Principles describe five “General Principles” and six “Stakeholder Principles.” The General Principles are laid out as propositions, each followed by an interpretive statement:

**Proposition # 1: Stimulating economic growth is the particular contribution of business to the larger society.** We understand that profits are fundamental to the fulfillment of this function.

**Proposition #2: Business activities must be characterized by fairness.** We understand fairness to include equitable treatment and equality of opportunity for all participants in the marketplace.

**Proposition #3: Business activities must be characterized by honesty.** We understand honesty to include candor, truthfulness and promise-keeping.

**Proposition #4: Business activities must be characterized by respect for human dignity.** We understand this to mean that business activities should show a special concern for the less powerful and the disadvantaged.

**Proposition #5: Business activities must be characterized by respect for the environment.** We understand this to mean that business activities should promote sustainable development and prevent
environmental degradation and waste of resources.

The six stakeholder principles refer to care for customers, employees, owners/investors, suppliers, communities and competitors.

In the context of this conference, it is important to note that The Minnesota Principles were neither developed as nor are intended to be a theological document, even less as a statement of Christian or Catholic social thought. At the same time, the text does reflect the perspectives and influence of numerous people of faith among the drafters including, among others, business people from Catholic and other Christian traditions, two Catholic professors from the University of St. Thomas–Minnesota and a Presbyterian minister.

In creating this text, the drafters hoped to affirm the “centrality of moral values in economic decision making.” Among the values which these principles describe are prominent themes from Catholic social thought, including the dignity of the human person, with particular attention to both employees and those who are disadvantaged, and the common good, described in the principles as the global human community, including the business responsibility to support communities in which it operates, to collaborate in raising health, education and workplace safety standards and to promote and stimulate sustainable development.

A Model

To better respond to the concrete needs of companies and business leaders with whom it works, CEBC has drawn on its experience with The Minnesota Principles to develop a working model for describing an ethical organization. The model’s four elements can be seen in the image to the right.

Values: At the center of a “good company” are its values. To use an organic analogy, the values form the lifeblood of the organization; for the organization both to survive and to thrive, it must flow vigorously through every cell. Surrounding the values are three concatenated circles.

Stakeholder Balance: In outlining stakeholder principles, The Minnesota Principles describe the network of relationships within which companies operate and to which they must attend. In speaking of stakeholder balance as a key element of an ethical business, the CEBC model recognizes that stakeholder needs and demands frequently exist in tension with one another: Customers almost always want a lower price; employees want higher wages and increased benefits; owner/investors want a greater return; suppliers want to be paid more; communities want companies to invest more in them; and competitors want fair competition. The model does not suggest that these tensions will disappear for the good company but that it will recognize the tension and work to maintain a balance between them. This model also suggests that focusing too much on any one stakeholder, whether owners/investors, customers or employees, will create a distortion that can lead to ethical lapses.

Leadership Effectiveness: The good company will have leaders who both “talk the talk” and “walk the talk” of ethical leadership. Leaders must embody the organization’s values in their
own behavior and must articulate those values in a way that is compelling for employees. For good or ill, they set the tone that permeates the organization’s culture.

**Process Integrity:** This element of the good company focuses on the systems dimension of organizational life. The good company’s values must be built into every operational process. All of its systems, e.g., recruiting, hiring, evaluating, compensating, promoting, demoting, firing, need to be aligned with its values. At the least, misaligned processes create confusion and poor decision-making within the organization; at worst, they create ethical lapses and chaos.

**A Tool for Assessment**

A recurring question in CEBC’s work with client companies is “How do we know? We think we have built an ethical culture in this firm, but would like to be certain.” In response to this need, the Center collaborated with Gantz Wiley Research (GWR), an international survey research firm, to create the **CEBC Integrity Survey™** and the **CEBC Integrity QuickCheck™**. The **Integrity Survey** is a 28–item employee survey designed to provide a baseline assessment of an organization’s culture in light of five dimensions of ethical culture. The **Integrity QuickCheck** is a 5–item instrument which provides a high–level snapshot of the organization’s ethical landscape along the same five dimensions.

The five dimensions include: 1) Trust, integrity and honesty; 2) Values, amplified to include mission and vision; 3) Leadership; 4) Stakeholder commitment; and 5) Process integrity.

GWR’s **WorkTrends™** is an employee opinion survey designed to assess employee and customer satisfaction within organizations operating in the United States. It is comprised of a core set of items that remain unchanged through multiple administrations. This core set enables researchers to track trends over time and to evaluate change within the business environment on a national scale. In addition, demographic items are included such as age, sex, job classification, business sector and organization size by number of employees.

**WorkTrends™** 2005, administered in the fourth quarter of 2004, and reported in the first quarter of 2005, was mailed to a random national sample of 10,000 working American adults, from front line workers to senior executives. Overall response rates were 66% resulting in a margin of error of plus or minus one percent at the 95% confidence level. **WorkTrends™** represents a normative sample of working Americans.

Incorporated within **WorkTrends™** are the five items comprising the **CEBC Integrity QuickCheck™** together with additional items from the **CEBC Integrity Survey™**. Respondents rate each item on a 1 to 5 scale. In reporting results, a favorable response to an item is indicated by a response of 1 or 2; a neutral response is indicated by 3; and an unfavorable response is scored a 4 or 5 unless otherwise indicated. An Ethics Index, functioning as an unbiased and non-weighted measurement of ethical culture, is constructed by aggregating the five **QuickCheck™** items. Scores of 1.0 to 2.4 indicate “strong” ethical cultures whereas scores of 3.6 to 5.0 are considered “weak” ethical cultures.

Ethics Index results have been analyzed according to industry and job type. Using the “strong” and “weak” index scores, further comparisons were analyzed to create the framework for a relational matrix in relation to the CEBC model described above. Strong/weak Ethics Index
scores were compared to individual items related to the CEBC model and *The Minnesota Principles*: 1) Trust/Integrity/Honesty, 2) Fairness, 3) Mission/Vision/Values, 4) Stakeholders, 5) Leadership–Senior Management, 6) Leadership–My Manager and 7) Process Integrity.

**Key 2005 Survey Results**

**Ethics Index Results**

Examining the data through the lens of the aggregated Ethical Index reveals the following:

- **Working Americans believe that having an ethical business culture is important.** Trust/Integrity/Honesty, Mission/Vision/Values, Leadership and Stakeholders scored favorable responses equal to or greater than 50%. (Note that unless otherwise indicated, these numbers refer to the percentage of favorable responses.) Leadership and Stakeholders scored the highest favorable response at 60 and 61% respectively.

- **There are important differences in the strength of ethical culture between industrial sectors.** Of the fifteen industries identified, scores were most favorable (at least 5 percentage points above the norm) for Financial Services, Health Care Products and Banking Services. Industries in the lower quartile (at least 5 percentage points below the norm) included Government/Public Administration, Light and Heavy Manufacturing and Food Industry Retail/Wholesale. With a norm of 53%, favorable responses ranged between 46 and 62%.

- **There are significant differences in the perception of ethical culture between job types.** Comparisons of the Ethics Index by Job Type revealed distinctive differences between those job positions classified as Management (Executive, Manager and Supervisor) and those classified as Non–Management. The more senior the job classification, the more favorable the perception of an organization’s ethical culture. The results ranged from 71% for Executive to 37% for Skilled Trade.

- **Misalignment of systems is a problem.** Only 37% of respondents agreed that there was Process Integrity in their organization. An additional 24% of respondents reported that it is not present.

**Results for Individual Ethical Dimensions**

When the data were analyzed in terms of the seven items listed above, the following results were seen:

- **Major differences were revealed between strong and weak ethical cultures when they were compared to each of the seven items.** The mean difference was 75 points. Trust/Integrity/Honesty, Mission/Vision/Values, Stakeholders and Leadership–Senior Management all scored above the mean. The greatest difference of 90 points was observed with Leadership–Senior Management. Results for Fairness and Process Integrity showed the smallest strong/weak relationship with a difference of 56 points. Favorable, neutral and unfavorable results across the seven theme items for strong ethical cultures averaged 85, 13 and 2%; for weak ethical cultures, the results are 11, 20 and 69%, respectively.

- **There is a persistent gap in perception between managers and non–managers, regardless of category.** When compared to managers, non–managers are less likely to
respond favorably across all categories. The difference between Management and Non-Management results ranges from 11 to 17%. The greatest disparity was recorded with Trust/Integrity/Honesty; the least, with Mission/Vision/Values.

✓ The gap is even wider when the management data are segmented into Executive, Manager and Supervisor categories. The difference on average across all themes between Management and Non-Management was 13%. The average difference between Executive and Non-Management increased to 24%. On average, only three out of ten executives answered the theme items with a neutral to unfavorable response.

✓ The gap also exists within management, between executives and supervisors. Comparing the results of responses to the Leadership–Senior Management theme reveals a gap of 18% between executives and supervisors. Executive, Manager and Supervisor responses are 78, 72 and 60%, respectively. This is compared to the combined Non-Management category response of 57%. The combined management response rate is 69%. Similar comparison of the Leadership–My Manager item showed the range of responses was 82, 74 and 67%, Executive, Manager and Supervisor, respectively. The Non-Management combined response was 62%.

Some Preliminary Conclusions

These conclusions are preliminary. The data are so rich that much more analysis is needed. Nevertheless, there are lessons here for all who would create and sustain the good company.

1. Employees believe that working in ethical organizations is important, both for them and for the companies in which they work. We believe that most people most of the time want to work for companies that do the right thing for all of their stakeholders, creating products and services that serve their customers, fairly compensating employees, suppliers and owners/investors, competing with integrity and contributing to the common good.

2. Mind the Gap. The data reveal two important gaps.
   
   a. The first is perceptual, between those at the top of organizations and those on the front lines. This gap is strong and persistent. Leaders believe that they are fulfilling their responsibility to say and do all of the right things to set the ethical tone; those on the front line believe something contrary is occurring, creating a situation rife with potential for ethical lapses. This difference in perceptions has powerful implications for, among others, organizational communication, training and risk management.

   b. The second gap demonstrates the lack of alignment between organizational values and systems. There is always disparity within organizations between formal systems, “the way things are supposed to be done,” and informal systems, “the way things really happen here.” The wider that disparity, the greater the risk of breakdowns. An important task for leaders is managing that gap closer. An important contribution of this assessment tool is providing concrete data to assist in that process.
A Framework for CSR Assessment, Measurement and Reporting

Dan W. Hess

As an increasing number of companies take up the challenge of both engaging in and monitoring socially responsible activities, there is a growing demand for assessment and measurement systems that allow stakeholders to gauge performance in this area. Companies are being asked to report on issues of sustainability, human rights, worker empowerment and the environment. Performance measurement in these areas is difficult, with questions of what to report and how to report being common. To date, several organizations have provided principles and guidelines for CSR reporting but none of these reporting frameworks has been universally accepted or risen to the level of GAAP style reporting with concurrent auditing standards. The purpose of this paper is to review the evolution of CSR reporting guidelines, explore the benefits and costs of CSR reporting and suggest a new framework for CSR assessment, measurement and reporting.

Introduction and Theory - A first step toward understanding CSR assessment and measurement issues is defining what it is we are assessing. What are corporations responsible for and to whom and who is calling for firms to be socially responsible? CSR advocates suggest businesses are responsible for a wide range of issues such as employee relations, human rights, corporate ethics, community relations and the environment. The generally ambiguous nature of the business logic for adopting socially responsible behavior partially explains the range of approaches and theories as to whether or not business should engage in CSR and the forms that responsibility should take. On one extreme is the neo-classical view of the firm that essentially states that maximizing shareholder value is preeminent and CSR is irrelevant. Milton Friedman (1962) espoused this view, “Few trends would so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can.” The other extreme associates the firm with some form of moral or ethical imperative to help solve social problems because they have the resources and skills to do it and because it is the right thing to do. This approach sees profitability as important for sustaining and growing the business but other societal and moral goals are equally important.

Current Practice in CSR Measurement and Reporting - Before looking at suggestions for a new framework for CSR assessment, measurement and reporting, a review of current practice in this area is important to establish context. Although there is growing interest in CSR reporting, descriptive studies examining how firms measure CSR activities and how they construct CSR reports are lacking. Chatterji and Levine (2006), Perrini (2006) and Marquez and Fombrun (2005) survey current corporate practice in CSR measurement and reporting and provide some suggestions for improvement. The following is a summary of their findings.

Companies engaged in CSR reporting commonly use environmental, sustainability and social reports. Reporting such information is voluntary with companies in control of what, how and when to report and disclose. Most large global companies, however, disclose some non-financial information. Some produce stand-alone reports while others integrate this information into quarterly or annual financial reports or publish it electronically on company web sites.
While companies differ in the way they define, prepare and disseminate CSR reports, they tend to have several common features that distinguish them from other external corporate reports. One, CSR reports are published to complement and complete the corporate financial picture by adding a social and environmental perspective. Two, CSR reports tend to give equal weight to the qualitative and quantitative information contained within them. Three, CSR reports are primarily outside oriented aimed at sharing information. These reports are usually produced as a direct result of an accountability process that attempts to balance the interests of various stakeholders. Four, CSR reports have a strong process dimension. Rather than just reporting end results as do most financial reports, CSR reports tend to focus on ongoing interactions with stakeholders and stress the exchange of ideas. Five, CSR reports tend to be clear as to their main objective. Companies stress that excellence in health, safety and environmental performance and addressing societal issues is capable of having a positive impact on the bottom line.

Current practice in CSR reporting has also been significantly influenced by the evolution and development of CSR reporting guidelines. Developing reporting standards is a daunting task given both the ambiguous nature of CSR activities and the broad range of stakeholders. Despite this, in the past 10 years a number of reporting guidelines have been developed in an attempt to provide some uniformity to the CSR reporting process. The full paper reviews the Global Reporting Initiative (GRI), AA 1000, ISO 9000 and SA 8000.

Benefits and Costs of CSR Measurement and Reporting - The interest and growth in CSR measurement and reporting on the part of corporations has been influenced by several perceived and actual benefits attached to this activity. These benefits include such things as reduced operating costs, increased customer and employee loyalty and satisfaction, reduced regulatory risk, improved business practice and enhanced public image. The full paper discusses these in more detail. After exploring these benefits, attention will be focused on several costs and difficulties found in the current practice of CSR reporting. These cost and problems will then set the stage for an exploration of a new framework for CSR measurement and reporting. The following costs of CSR reporting are discussed in more detail in the full paper: CSR definition confusion, no uniform or enforceable standards, few organizational models, expensive to implement and corporate structure problems.

Framework for CSR Assessment, Measurement and Reporting - The prior section outlining the various costs and problems with CSR measurement and reporting indicates that the central issue revolves around CSR definition confusion which, in turn, leads to a proliferation of arbitrary, overlapping and unenforceable standards. Existing standards and guidelines are not uniformly applied and in some cases lead to unintended consequences that undermine the very societal benefits being fostered. The current situation burdens managers and is costly to shareholders and consumers. Therefore, any framework for improving CSR reporting must start with a process to standardize measurement and reporting metrics.

CSR reporting must move toward uniformly accepted standards and oversight mechanisms as are currently in place for financial reporting and corporate governance. Conformance in financial reporting is provided through Generally Accepted Accounting Principles (GAAP) with oversight by the Financial Accounting Standards Board (FASB) and the Securities Exchange Commission (SEC) in the United States. GAAP has increasingly become a global standard providing
stakeholders a transparent, reliable and comparable standard. More recently, uniform corporate
governance standards have been created with the passage of the Sarbanes-Oxley Act in the
United States. This Act has empowered audit committees, created internal audit mechanisms,
tightened controls on financial processes and developed audit matrices all of which increase the
ethical operations and transparency of the firm and restore investor confidence.

My argument here is that CSR reporting should be viewed as an equal partner in the continuum
of corporate reporting that includes financial and corporate governance reports. Thus, CSR
reports should be required in the same fashion as financial and corporate governance reporting
and these three reporting sectors should be integrated and comprehensively linked into a set of
policies, practices and programs. Yet, their reporting standards and accountability issues have
developed independently. The following framework and related suggestions presents a model to
assist practitioners in standardizing the measuring and reporting (M & R) of CSR activities.

Figure 1: CSR Measuring and Reporting (M & R) Model

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<th>Principles of M &amp; R</th>
<th>Process of M &amp; R</th>
<th>Products of M &amp; R</th>
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<tr>
<td>What to Measure</td>
<td>Develop Appropriate Metrics</td>
<td>Quantitative Rating or Certification</td>
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<td></td>
<td>Set Benchmarks</td>
<td>Process for Continuous Improvement</td>
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<td></td>
<td>Assessment or Audit for Compliance</td>
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What To Measure? On a theoretical basis, the answer to this question partially depends on the
firm’s basic beliefs and approach to CSR. As discussed previously, this ranges from a pure
profit motive approach where CSR is deemed irrelevant to one motivated by stewardship where
CSR is central to the firm’s purpose and mission. On a practical basis, the firm should consider
the issues and topics that CSR advocates typically mention as important. For example, CSR
Europe, a membership organization of large firms across Europe, in its reporting guidelines
suggests the following areas: treating employees fairly and equitably; operating ethically and
with integrity; respecting basic human rights; sustaining the environment for future generations;
and caring for your community. In addition to determined the CRS areas that are appropriate to
work on, organizations need to consider whether to measure and report on behavior,
accomplishments, or both. Behavior reflects what is done or actions that are performed while
accomplishments reflect whether the firm has achieved the specific goals it has set for itself. A
key consideration is stakeholder interest. Will they want to see company efforts in a particular
area, or will they instead want to see specific, numerical measures of accomplishment? Likely,
stakeholders will want to see both reflected in CSR reports. Companies may not always succeed
at all their CSR efforts; however, it is important for interested parties to understand that actions
have been taken. Not to mention that well intentioned behaviors often lead to accomplishments.
Develop Appropriate Metrics. This is probably the most difficult and time-consuming aspect of the model. However, the development of standards that are valid, reliable and comparable is critical to the ultimate value of the CSR reporting process. The long-term benefit will more than compensate for the time and effort expended in the metrics development process. It is appropriate and at times necessary to develop standards that can be measured either directly or through proxy measures. Physical characteristics such as weight, quantity and distance can be measured using a direct method while intangible items would necessitate a proxy method. For example, dollars spent on pollution control equipment can be quantified, but the benefits of utilizing such equipment cannot always be directly measured. An indirect measure such as the general health of the community may have to be used.

Whether they are direct or indirect, good metrics should have certain basic characteristics. Using a financial reporting perspective, Joyner and Rayborn (2005), suggest the following attributes. They have been clearly defined; have been evaluated for acceptability to and conformity with the performance area to be measured; reflect organizational mission and strategy; flow from the top downward for consistency; are not too aggregated to impede action; are collectable from data sources; have a positive cost-benefit relationship; and are manageable in number.

Taking further cues from financial reporting, CSR standards should also be reliable, comparable, and valid. A metric is reliable if it provides the same answer when applied more than one time. For CSR standards reliability can be a problem. For example, if a questionnaire is filled out at different times, by different people, in different divisions of the same firm, the answers can vary widely. A metric is comparable if it can be used across different organizations and over time. Many environmental performance metrics suffer from lack of comparability such as emissions of toxic materials that are difficult to compare across different industries. This slows improvements as top performers are difficult to discern. Validity is whether the measure identifies performance that is important to society. This is more difficult to assess than reliability or comparability as it is a function of the values and beliefs of multiple stakeholders. A measure may be reliable and comparable but not measure an outcome that matters to stakeholders.

One other aspect to consider in metric development is the types of metrics that are typically used in measuring and reporting environments. They generally fall into one of four types of measures which are input; output; outcome; and process indicators. In summary, developing good metrics is difficult. However, two axioms generally apply in organization: 1. a firm gets what it measures and 2. if you can’t measure it, you can’t manage it. Therefore, management must be certain the firm is measuring the factors that are essential to progress in the CSR area.

Set Benchmarks. Benchmarking is the process of setting standards of performance and has been traditional used by firms to assess both product and process performance. It has typically been used in those business areas where numbers predominate and performance can be measured with relative ease. In the CSR arena benchmarking has been practiced for some time in the environmental and employee health and safety areas on issues such as energy consumption, recycling, toxic emissions and sick days. Benchmarking tools developed and lessons learned in these two CSR areas need to be implemented in other areas of CSR and ethical behavior.
Setting benchmarks in CSR areas can be difficult due to nonnumeric standards, the wide array of nebulous CSR activities, varying legal restraints, and little historic record of standards. To begin the process firms should obtain benchmarks from both direct competitors as well as from firms outside their industry that are attempting to develop comprehensive CSR reports. Raiborn and Payne (1990), suggest that an organization may choose to act at one of four levels in a hierarchy of behavior. They are: 1. Basic, which comply solely with the law; 2. Currently attainable, which reflect a step above current legal mandates but would not be deemed laudable by society; 3. Practical, which show extreme diligence and strive to do the “right” thing; and 4. Theoretical, which reflect the greatest potential for good. Relative versus absolute standards are discussed.

Assessment or Audit for Compliance. Once appropriate metrics have been developed and benchmarks established firms need to develop policies and procedures to assess whether they are meeting their standards of performance. If firms just engage in self-reporting of CSR activities rather than implementing and utilizing an external assessment mechanism then they open themselves to criticism as to the validity of their CSR performance. Thus, more firms are utilizing widely accepted CSR reporting guidelines such as the Global Reporting Initiative (GRI) as well as third-party certification groups such as the Fair Labor Association. Once certified, firms can use the certification to signal their social performance to various stakeholders. Ideally the CSR assessment and audit process would begin to resemble that which is currently found in financial reporting. However, the major impediment to this is the proliferation of measures and standards. Unless there is consensus over what exactly should be measured and how it will be measured, comparability among metrics is futile and a valid audit process will not exist.

Quantitative Rating or Certification. The assessment and audit process would provide a greater benefit to stakeholders if it resulted in a concise and meaningful rating or certification. The audit process which typically includes various forms of statistical sampling, surveys and interviews can be complex, detail oriented and confusing to interpret. Therefore, a summary score or certificate that is universally accepted and easy to interpret is an important aspect of CSR reporting.

Process for Continuous Improvement. Firms should develop formal internal systems to encourage continuous improvement in researching, developing and validating appropriate metrics, setting benchmarks and auditing for compliance. In addition, the major stakeholders in CSR activities should be funding more broad based research in these same areas. It is important to include external stakeholders in all parts of the CSR measuring and reporting process. This may be difficult as they may not have a clear idea of organizational goals but, at the same time, determining their concerns and getting their buy-in on the process is critical.

Conclusion – This paper has reviewed the theory and evolution of and explored the benefits and costs of CSR reporting. With this as background, a model for CSR assessment, measurement and reporting is presented. The premise of the model is that CSR reporting should bear some resemblance to the universally accepted procedures and principles currently utilized in financial reporting. In other words, there needs to be principles, processes and reporting outcomes that are valid, transparent, reliable and comparable presenting information that complements financial reporting by adding a social and environmental perspective. Although, it is recognized that CSR issues are often difficult to measure and assess making the application of this model a challenge, managers must continue their quest to improve the effectiveness of CSR reporting.