Rethinking How Business Purpose Is Taught in Catholic Business Education

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Abstract

Business education at a Catholic university should engage students and faculty across the university in critically examining the purpose of business in society. Following the best practices of leading business schools, the Catholic business curriculum has mostly focused on the shareholder and stakeholder approaches—with the shareholder approach being the predominant view. Creatively engaging the Catholic Social Tradition (especially the "community of persons") can bring a richer appreciation of the purpose of business in our contemporary society than either the shareholder or stakeholder approaches. We argue that far more discretion to pursue various corporate purposes in manifold ways exists than is frequently appreciated by business managers and those who educate them. This article examines how, given this legal and moral discretion, the Catholic Social Tradition is a rich resource for teaching corporate purpose, and reveals how tapping into a religious tradition with a long philosophical discourse can shape a rich dialogue in the curriculum as to a company's moral direction. We contrast two philosophies of business: an Association of Individuals (the shareholder and stakeholder approaches) and a Community of Persons (mission-centric approach), and their respective views of corporate purpose. While business scholars tend not to question their underlying anthropological presuppositions because of the desire to be "practical," a business education grounded in the liberal arts must engage the first principles of its discourse.

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This article responds to the disturbing findings of a recent study by the Brookings Institute that elite *secular* business and law schools routinely teach that maximizing shareholder wealth is (and must be) the primary purpose of the corporation.[1] Such a business focus is, this article argues, descriptively inaccurate as a matter of positive law, and as a normative matter, presupposes value judgments that are rarely addressed and inadequately examined. These educational presuppositions ignore broader corporate aims that can be served by drawing on philosophical and religious understandings of the meaning of the person, work, property, law, and the larger community. The result is to foreclose robust discussions by students about how—for good or bad—every institution, however mercantile its activities, inescapably has a particular human and social ecology.[2]

A university business education, whether religious or secular, that takes seriously its vocation to form in students a more noble view of the business profession will engage in a philosophically informed conversation with its students on the purpose of business. In many universities, however, including Catholic ones, this is not done. Instead, by splintering portions of business purpose into classes on management, strategy, finance, business law, leadership, ethics, and other course offerings, students are left with a fragmented and incoherent understanding of corporate purpose.

A fragmented and cramped conception of corporate purpose fails to draw on religious and philosophical thinking that can usefully broaden and deepen students' understanding of how a critical socioeconomic institution—the business corporation—can both be better governed and contribute more positively to society.[3] This failing weakens the ability of business education to shape formative student beliefs about how well-governed, twenty-first-century business

[1] Darrell West, "The Purpose of the Corporation in Business and Law School Curricula," Brookings Institute (July 2011), http://www.brookings.edu/~/media/research/files/papers/2011/7/19%20corporation%20west/0719_corporation_west.pdf (accessed July 13, 2012).

[2] See William Sullivan's concept of the social ecology of business in this issue.

[3] Peter Drucker observed that "[i]f we want to know what a business is we have to start with its *purpose*. And its purpose must lie outside of the business itself. In fact, it must be in society since a business enterprise is an organ of society." Peter Drucker, *The Practice of Management* (New York: Perennial Library, 1954), 37. See also Robert Greenleaf, *The Institution as Servant* (Indianapolis: Greenleaf Center for Servant-Leadership, 1974).

institutions can creatively and sustainably advance the common good qua business institution.[4]

University education is a fertile period for students, when core outlooks and beliefs are being instilled.[5] If business schools, housed in Catholic universities, are not drawing on the Catholic Social Tradition (CST) to link religious and moral insight and conviction with the study and practice of the meaning of business purpose, they are ignoring something that is uniquely theirs as well as marginalizing an important part of the Western intellectual tradition that travels from Aristotle and the Bible, through Aquinas and the scholastics, to modern Catholic social teachings.

The organization of this article is as follows: Part I addresses corporate purpose as foundational to a modern business education and especially to a Catholic one. An important point in this section is the inescapable existence of high-level discretion concerning corporate purpose, which is why an education on this topic is so critical for future business leaders. Part II examines how, given moral discretion, the CST is a rich resource for understanding corporate purpose, and reveals how tapping into a religious tradition with a long philosophical discourse can shape a more robust conversation consistent with a university's liberal arts and Catholic mission. This section articulates two models of the corporation: the Association of Individuals and the Community of Persons. We find this distinction more helpful than the typical shareholder/stakeholder approaches because our Association and Community models differ not only in their conception of the firm, but also in their

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[4] While this article does not address in detail the role of corporate governance, the issue will hover in the background because the governance of a business is inextricably tied to its purpose. Corporate governance deals with the allocation of decisionmaking authority within the corporation and the manner by which that authority is exercised. In the United States, the key participants in governance are only shareholders, directors, and executive officers, even though many more constituencies are affected by corporate activities. If profit maximization and shareholder wealth are the assumed corporate purpose, the focus in corporate governance correspondingly becomes how to better govern corporations to achieve that end. But if corporate purpose is not the pursuit of a singular financial objective, then governance structure and processes must also change to best attain the identified institutional goal(s). In this way, the *how* of corporate governance is vitally linked to the *what* of corporate purpose.

[5] We believe our call for Catholic business education to more self-consciously focus on the role of business in building society is consistent with the 2011 Carnegie Foundation study calling for secular undergraduate business education to do likewise. Anne Colby, et al., *Rethinking Undergraduate Business Education: Liberal Learning for the Profession* (San Francisco: Jossey-Bass, 2011).

view of the "individuals" or "persons" comprising the firm. Part III provides a helpful, pedagogical way to see how institutional purpose is viewed among the various kinds of organizations, including businesses. It is important to note that when we use the terms "business," "corporation," or "firm," we need to keep in mind wide-ranging expressions. We end with a conclusion on next steps for curricular reform regarding corporate purpose in Catholic business education.

Understanding Corporate Purpose in Business Education

Business students should receive a more accurate understanding of corporate purpose. Framing curricula in order to provide this understanding will serve several important goals in a Catholic business education. First, it will dispel pervasive and deep-seated misunderstandings about what business objectives the law does and does not require. Second, students will then more clearly see that the key determinants of corporate purpose are beliefs and convictions, customs and practices, social norms, business lore (in business itself and in business school education), executive compensation practices, company culture, and market forces of various sorts. Third, by understanding that non-law factors play the strongest role in shaping thought about corporate purpose, students are better able to appreciate both the possibility (and the responsibility) of exercising discretion about *what* goals should be advanced in business as well as *how* a chosen goal should be achieved. This permits, once again, the introduction of various philosophical and religious sources to enrich the discussion. It raises, moreover, the larger question of how economic enterprises are influenced by beliefs in the broader culture, which influences how corporate purpose is answer. Not every company must answer that purpose question in the same way. Rather, a broad spectrum of possibilities emerges, ranging from purely or substantially charitable (or "beneficial") purposes to the singular goal of zealous profit maximization, but with numerous points along a continuum running between these polar extremes. Students can then appreciate that a range of institutional responses to the issue of corporate purpose is possible. Distinctive and diverse moral ecosystems are possible as firms strike different balances between the pursuit of financial returns to capital providers and other worthy goals.

Unfortunately, the subject of corporate purpose is widely misunderstood. Many influential persons—including economists, business persons, and educators—wrongly believe that the law imposes an affirmative obligation to maximize shareholder wealth and/or corporate profits. An example of such thinking is seen in the results of a 2011 Brookings Institute study of what elite business and law schools teach (or assume) about corporate purpose. We describe that study below and respond to it by pointing to material clearly explaining what the law does (and does not) say about this important topic. We then relate numerous other strong, but non-obligatory, influences on thinking and practice on this matter. The key point is this: *Far more discretion to pursue various corporate purposes in manifold ways exists than is frequently appreciated by business managers and those who educate them.*

1. *The Brookings Institute Study*: In July 2011, the Brookings Institute published the results of a survey on what the top 20 business schools and top 20 law schools taught about corporate purpose.[6] Although law schools appear to do a worse job than business schools in presenting a full and accurate view, neither does a good job of properly treating the subject of corporate purpose.

The study found that there are few standalone courses in business schools that address corporate purpose; however, several courses in the curriculum address the topic, such as ethics, management/leadership, strategy, governance, business law and finance. Much of the coverage, besides being splintered among offerings, addresses individual ethical challenges faced by business persons rather than the broader subject of proper corporate purpose as an institutional matter. Business education primarily emphasizes profit and wealth maximization as the assumed goal. This introduces an air of unreality into ethics discussions because such discussions presuppose that, ultimately, managers must choose the course of action that yields the most money. MBA student survey data, not surprisingly, demonstrate that students believe the primary purpose of a corporation is to maximize shareholder value, and they further believe that this is how corporate leaders actually behave when making decisions. Yet, students also state that if they were in charge, they would more broadly consider employees and other social and environmental aspects. Students thus perceive a tension between their beliefs and existing practices.

2. *Law and Corporate Purpose*: Although many persons—including many law professors[7]—believe (or simply assume) that law affirmatively mandates that corporations must maximize shareholder wealth or company profits, several legal commentators have noted how, outside

[6] West, "The Purpose of the Corporation in Business and Law School Curricula."
[7] *Ibid*.

one limited setting,[8] that belief is unsupported by authority.[9] The law's agnosticism on this vital point removes one common justification for a singular focus on such a goal: legal necessity. To elaborate, no corporate statute in the United States, for example, requires a corporation to advance a particular purpose, such as profit or share price maximization.[10] Rather, consistent with an expansive, enabling philosophy on company powers and purposes, corporate statutes—including that of Delaware, the leading corporate state—are wholly agnostic on corporate purpose. Delaware's statute broadly states that a corporation may conduct "any lawful business or purposes."[11]

As to case law, there are only a small handful of decisions in the entire country that even address purpose, and some of those do so quite obliquely.[12] None required a business to alter its strategy or objectives. The Delaware Supreme Court has held only that corporate directors do not typically have an obligation to maximize the share price in the short term—or to accede to shareholder desires on that score.[13] In spite of the sparse legal underpinnings for the profit maximization viewpoint on corporate purpose, law and business schools teach that objective as if it were a settled legal and normative issue. Moreover, perceptions of a supposed legal mandate to maximize profits lie behind emergent legislation—now adopted in eleven states—permitting the formation of so-called benefit corporations or "B Corps." These for-profit companies

[8] The one setting is when a corporation is being broken up or control is shifting from a dispersed shareholding base into a unified controller. See *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc*., 506 A.2d 173, 182 (Del. 1986); *Paramount Communications, Inc. v. QVC Network, Inc*., 637 A.2d 34, 50 (Del. 1994).

[9] See Lyman Johnson, "A Role for Law and Lawyers in Educating (Christian) Business Managers about Corporate Purpose," http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1260979. A 2012 book also treats this subject fully. Lynn Stout, *The Shareholder Value Myth* (Berrett Keohler Publications, 2012).

[10] Einer Elhauge, *Sacrificing Corporate Profits in the Public Interest* 80 N. Y. U. L. Rev. 733, 738 (2005). See generally, Lynn Stout, *The Shareholder Value Myth*, 24–32.

[11] 8 Del. C. § 101(b) (2012). Moreover, 31 states permit but do not mandate director consideration of non-shareholder constituencies. *See* James D. Cox & Thomas Lee Hazen, Treatise on the Law of Corporations § 4:10 (3d ed. 2010).

[12] The iconic case is *Dodge v. Ford Motor Co*., 170 N. W. 668 (Mich. 1919). The *Dodge* case has been much discussed. *See, e.g.,* Leo E. Strine, Jr., *Our Continuing Struggle With The Idea That For-Profit Corporations Seek Profit*, 47 Wake Forest L. Rev. 135, (2012) (collecting commentary). For other judicial decisions, see William H. Clark, Jr. & Elizabeth K Babson, *How Benefit Corporations Are Redefining the Purpose of Business Corporations*, 38 Wm. Mitchell L. Rev. 817, 825 n. 33 (2012).

[13] *Paramount Communications, Inc. v. Time Inc.,* 571 A.2d 1140, 1150 (Del. 1989).

expressly may combine the pursuit of profit with the pursuit of other social-environmental goals, and they need not maximize profits.[14]

3. *Key Influences on Corporate Purpose*: Understanding that law does not mandate profit maximization enables students to see the chief influencers of that common practice more clearly. Critical to prevailing practices are business lore, including Milton Friedman's iconic 1970 *New York Times* interview;[15] educational lore (noted above); widespread business customs and practices; executive compensation arrangements designed to reward managers for financial performance only; market constraints; and larger cultural norms, which can include religious, philosophical, and social beliefs and practices. These exert real pressure, to be sure, particularly markets for capital (and only shareholders have voting rights), products and services, and labor. But, critically, except in perfectly competitive markets, they leave, to varying degrees in different industries and companies, some degree of discretion to deviate from the singular pursuit of profit maximization to achieve other goals.

It is the discretion to decide what to pursue, as well as how, that introduces an element of moral judgment into business. Consequently, as part of business education, this latitude should be discussed openly with students. The feasibility of pursuing various goals, and varying criteria for assessing the propriety of those goals, also should be discussed. If the liberal arts and the Catholic mission of the university are to animate business education, it must create in students the capacity to think in first principles, rather than to think only technically. Business as a form of work is a human activity with deeply moral and spiritual dimensions. It cannot be exhausted by only a legal and economic examination. It is here that the CST can uniquely inform this pedagogical enterprise within Catholic business education.

The Continuum of Corporate Purpose and the Catholic Social Tradition

If, as argued in section I, there is discretion in how to think about corporate purpose (direction), then it makes sense to discuss with students a continuum of purposes and the moral debates they generate,

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[14] These "B Corp" statutes are fully described and assessed in Lyman Johnson, *Pluralism in Corporate Form: Corporate Law and B Corps,* 25 Regent L. Rev.___ (forthcoming, 2013).

[15] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine*, (Sept. 13, 1970): 32-33, 122-26.

and it is reasonable to draw upon the liberal arts—in particular history, philosophy, and theology. Here we find that the CST is not agnostic to these debates. In Benedict XVI's encyclical *Caritas in veritate* (2009), he explains that the recent financial crisis, "marked by grave deviations and failures, requires a *profoundly new way of understanding business enterprise*." He states that "one of the greatest risks for businesses" is the narrow and exclusive concern for the pecuniary interests of investors, which limits the social value and character of property and capital.[16] In order to overcome this risk, business schools, and especially Catholic ones, should be advancing a robust discussion on the purpose of business.

In the early 1930s, at the beginning of the Great Depression, two texts were published that highlighted two approaches in understanding the purpose of business. In 1932, Adolf Berle and Gardiner Means wrote, in their seminal work *The Modern Corporation and Private Property*, that the corporation "had ceased to be a private business device and had become an institution."[17] They mean by this statement that the growth and development of the *modern corporation* in the twentieth century has made it the dominant way to organize economic life. The concentration of economic power in the modern corporation parallels the concentration of religious power in the medieval Church or of political power in the nation state.[18] The corporation cannot be, if it ever could be, understood as only a so-called *private* enterprise.[19] With the extraordinary growth and power of business institutions, "private" does not fully capture the significant impact business has on both the larger society and on the person. Businesspeople and owners should not see themselves simply as private individuals within private corporations making decisions to maximize wealth for private investors, as though various corporate attributes such as limited liability do not derive from public action or have no impact on the larger community.

Berle and Means, however, tended to view the corporation as best managed by a series of mechanisms of individual incentives and internal

[16] Pope Benedict XVI, *Caritas in veritate* (Vatican City: Typis Polyglottis Vaticanis, 2009), 40.

[17] Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New Brunswick: Transaction Publishers, 1991), li. First published in 1932.

[18] *Ibid*., 309.

[19] See Lyman Johnson, "Law and Legal Theory in the History of Corporate Responsibility: Corporate Personhood," *Seattle Law Review,* v. 35(2012): 1530-33 (describing how early corporations were chartered to serve public purposes).

interactions that, although constrained by regulation, should strive to advance investor interests. They acknowledged late in their classic work a more socially responsible vision, but they did not regard it as feasible. In other words, what dominates Berle and Means' description of the corporation, a description that is commonly heard today, are market and legal categories, which leave the corporation with a single constituency and in a morally flat as well as precarious position. We will discuss this in more detail below when we examine the shareholder and stakeholder approaches to corporate purpose.

A year before Berle and Means' classical work on the corporation, a lesser known work in business and legal literature that also addressed the corporation was published—Pope Pius XI's encyclical letter *Quadragesimo anno* (1931). It is important to point out to students that throughout history religious leaders, theologians, and philosophers have always taken a keen interest in economic issues such as work, property, business, contracts, etc. Like Berle and Means, Pius XI recognized that as the modern economy develops, and especially as the corporation's role in that economy grows, the corporation must be informed by a growing social understanding that can match its significant economic influence. But unlike Berle and Means, he encouraged business leaders to move from understanding the firm as only an investor-centered exchange of contracts and market incentives to one of relationship or partnership between capital and labor that would be drawn from the larger moral and religious culture.[20] He realized that as the corporation's role in the economy increases, the social understanding of capital and labor must be guided not only by laws and markets, but by principles such as the social nature of property, the common good, the dignity of work, subsidiarity and solidarity, and above all, the social and spiritual understanding of the human person. Without this philosophical and theological influence, the economy and its corporate form of organization fail to create conditions to *develop* those within the corporation so as to *serve* those outside it.[21] In contrast to Berle and Means' legal-market view of the firm, Pius XI began to articulate a richer moral view of the corporation. We will contrast these two views below.

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[20] Pope Pius XI, *Quadragesimo anno* (Vatican City: Typis Polyglottis Vaticanis, 1931), 65.

[21] See Rakesh Khurana, *From Higher Aims to Higher Hands: The Social Transformation of American Business Schools and the Unfilled Promise of Management as a Profession* (Princeton: Princeton University Press, 2007), Chapter 1.

Berle and Means and Pius XI reflect two different models, and two different traditions, of the corporation's purpose which have developed over the last eighty years. It is important to point out to students, as Alasdair MacIntyre has insightfully done, that everyone participates in a moral tradition.[22] There is no moral free zone. One way to highlight this debate that is consistent with the CST is to point out that business either moves on a trajectory that sees itself as an "association of individuals" or as a "community of persons."[23] These two views of the corporation, both non-statist in thrust it is important to emphasize, help to unearth the underlying beliefs as to the purpose (direction) of the corporation, which in turn enables boards and leaders to know "what" they are governing and how to govern (steer) to achieve the desired direction. To capture the different underlying assumptions of these two models/traditions of corporate purpose and governance is to contrast their assumptions about the human being (individual vs. person) and about the institution (association vs. community). A corporation is, minimally, a group of people gathered together to produce something together for a period of time. But how one understands people and how one understands institutions are the underlying first principles to one's view of the corporation's purpose and its governance.[24] We define these two philosophical orientations/models as the two ends of the corporate continuum.[25]

[22] Alasdair MacIntyre, *The Three Rival Versions of Moral Inquiry* (Notre Dame: University of Notre Dame, 1991).

[23] For fuller development on this distinction see Michael Naughton, "The Logic of Gift: Rethinking Business as a Community of Persons," *Pere Marquette Lecture* (Milwaukee: Marquette University Press, 2012).

[24] For an excellent analysis on the nature of "institutions" see Hugo Helco, *On Thinking Institutionally* (Boulder, CO: Paradigm Publishers, 2008).

[25] Most people often use the words individual/person interchangeably, but we will follow people like Jacques Maritain who believes that it is worth the time and effort to make the distinctions so as to bring out more clearly our underlying first principles. The authors of this essay spent quite a bit of time struggling with how to distinguish the institution. Ferdinand Tönnies distinguishes between Community and Society (see Ferdinand Tönnies, *Community and Society* [New Brunswick: Transaction Publishers, 2007]). Philip Selznick distinguishes between an Institution and Organization (Philip Selznick, *Leadership in Administration* [New York: Harper & Row, 1957], 5ff). Louis Putterman speaks of the firm as either an association or a commodity (Louis Putterman, "The Firm as Association Versus the Firm as Commodity," *Economics and Philosophy* 4 (1988): 243-266. In this article, however, we have decided to use the distinction between community and association. While no one set of terms seems quite satisfactory, corporations tend to reflect the nature of an association rather than a society, and because we are trying to describe its moral character, the word community does this better than institution or association.

While defining these two philosophical models may seem to some as just one more academic abstraction, we find that too many practitioners and academics adopt first principles without fully acknowledging them. This seems to us a violation of the liberal arts and Catholic character of a university. How the following materials can be used in the curriculum will depend upon the course that is taught. In philosophy, theology, corporate governance, and business ethics greater detail and depth can be explored. In finance, business law, and strategy, it will most likely take a lighter touch. For students, however, who see this logic across the curriculum, it can provide a powerful formation of thought.[26]

Association of Individuals: The view of the corporation as an "association of individuals" has dominated the contemporary legal and economic theory landscape through agency theory, transaction cost theory, neo-classical thought, and stakeholder theory in general. At the heart of this view of the corporation is an anthropological assumption that human beings are mere "individuals." Jacques Maritain, the French Catholic philosopher, distinguishes within the human being two poles that he describes as an *individual* and a *person*.[27] He argues that we are *individuals* by the fact that we are individuated deriving from matter, making each individual different from other individuals. As individuals, we have different bodies, personalities, dispositions, etc. We intend particular interests motivated by particular appetites to achieve particular ends. Without such individual action, life would come to a halt.

Yet when we see ourselves as only individuals, we see only multiplicity, an aggregate, collection or association of individual parts with private interests that don't have any real or organic relationship to others or to the whole. An individualistic culture such as ours increasingly sees, as David Brooks has pointed out, the free-floating individual as "the essential moral unit."[28] Ethics is largely described in "individualistic" categories such as self-interests, emotive preferences, private choices, individual utility maximization, and the protection of mutual individual autonomies. We then see life as a series of negotiations with other self-interested individuals and when we can achieve win/win outcomes

[26] While it is important to make clear to students the underlying moral traditions that people operate under, pedagogically, this may be done more effectively in an inductive fashion such as cases that surprise students rather than in a deductive way of lecture.

[27] Jacques Maritain, *The Person and the Common Good* (Notre Dame: University of Notre Dame, 1966), chapter III.

[28] David Brooks, "If it feels right…" *The New York Times*, Sept. 12, 2011, http://www.nytimes.com/2011/09/13/opinion/if-it-feels-right.html (accessed July 13, 2012).

we call our self-interests enlightened. Liberated from culture, religion, custom, and even family, this individualistic view of the world sees the individual as the essential engine of creativity that impels societies to progress.

Individual actions within corporations similarly are viewed as bargained-for, voluntary exchanges, or transactions, not relationships. In the corporate world of a market-oriented association of individuals, the firm is simply a nexus of discrete human actions described as transactions or exchanges with costs and benefits associated with them. The most sophisticated account of these exchanges is found within schools of thought called "agency theory" and "transaction cost theory" which painstakingly take into account the information, search, negotiation and re-negotiation, contracting, and enforcement costs of transactions.[29] What is left out of the picture of these transactions and exchanges is the kind of relationships that come from them, much less those that precede or sustain them. The firm is merely the aggregate of these exchanges with the goal to maximize the economic value of the firm. Virtue, character, community, are marginal realities that do not fit within such a lexicon of business and governance even though, without them—think here of trust, a true cost reducer—the leadership and governance of a business would be prohibitively expensive or even impossible.

An "association of individuals" view of the corporation can be bifurcated into either a shareholder-centric approach (association of shares) or a stakeholder-centric approach (association of interests). In the shareholder-centric view, the corporation favors the *shareholder* as the central claimant in the corporation. Those who manage corporate assets are not thought to have the power to choose among values. Instead, within this "association of shares," the firm serves largely as a locus for exchanging outputs and inputs, where managers seek to maximize returns for shareholders. Management is expected to discern and execute the best means to achieve these returns, but they have no voice in the end for which they act. Here the firm itself is largely seen as a "governance mechanism" for only shareholders.[30]

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[29] See Michael C. Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* v.3, (1976): 305-360. Oliver E. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: The Free Press, 1975).

[30] S. Ramakrishna Velamuri, "Entrepreneurship, Altruism, and the Good Society," *Business Ethics Quarterly,* The Ruffin Series No. 3 (2002): 47.

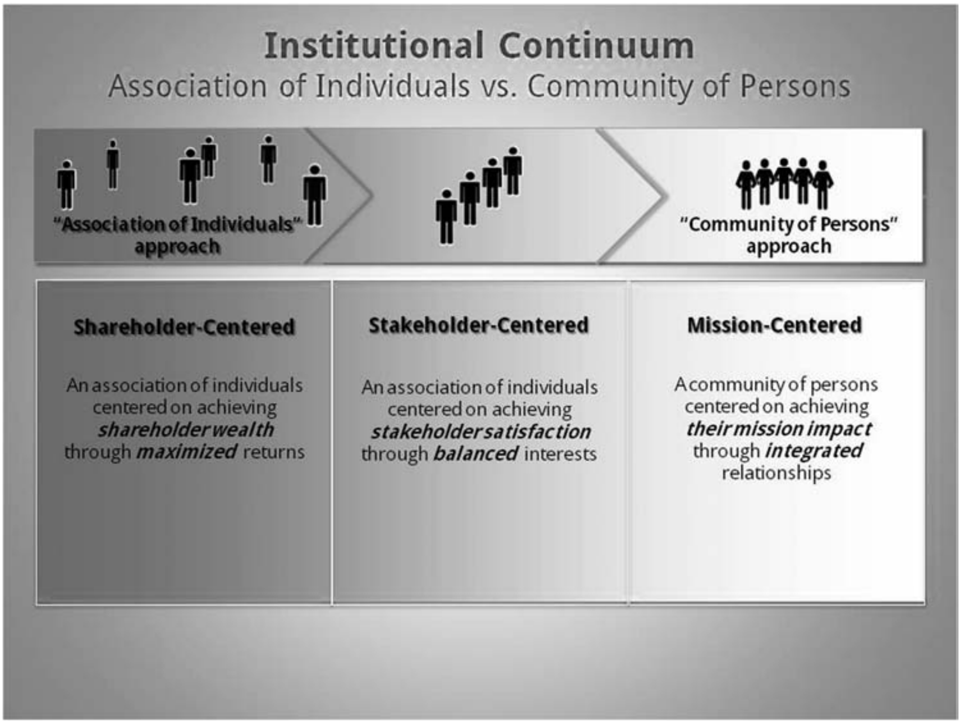
In the stakeholder-centric approach, the corporation favors a balanced mediation among various *stakeholders* within the corporation such as employees, customers, suppliers, environmental considerations, the broader society, and shareholders. Berle and Means argued in 1932 that in the future "the 'control' of the great corporations should develop into a purely *neutral technocracy*, balancing a variety of claims by various groups and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity."[31] In this view, management is charged with balancing the competing interests of a variety of groups that participate in corporations. While there are various types of interests in the corporation, for the most part interests are understood in terms of external material goods such as monetary wealth. Here the firm is largely seen as an "equilibrating mechanism." Management mediates the conflicting claims and interests of the multiple stakeholders in the firm to keep the firm "in balance," which is seen as the optimum state of the firm.[32]

While in practice, the stakeholder-centric approach is often an attempt to break away from the strict shareholder-centric approach of the firm and to move the corporation in service to a larger good, its logic in the marketplace and in the academy is still stuck and rooted in the association of individuals model. For example in relation to the board of directors, Robert Greenleaf explains that "[s]electing trustees to represent constituencies in the institution in order to make the trustee group a more balanced political body dilutes trust."[33] The stakeholder view may distribute benefits better than the shareholder approach, but it struggles to build community and the necessary virtues that bind people together. Simply because one takes other stakeholders more seriously by having them represented on boards, or having their interests considered by management, does not move from a logic of individual interests to a logic of community of the overall corporation. The pressing question remains "do I have mine," rather than evincing a genuine concern for the corporation's mission and

[31] Berle and Means, *The Modern Corporation*, 312-13.

[32] Some forms of stakeholder theory see the firm as a "nexus of contracts." See Helen Alford, Barbara Sena, Yuliya Shcherbinina. "Philosophical underpinnings and basic concepts for a dialogue between CST and CSR" http://www.stthomas.edu/cathstudies/cst/conferences/thegoodcompany/Papers/00POSITION.Paper.Fou.pdf (accessed July 13, 2012).

[33] Robert Greenleaf, *The Institution as Servant* (Indianapolis: The Robert K. Greenleaf Center, 1972), 7.



common good.[34] What often dominates in a stakeholder view of the corporation is the principle of equivalence, where exchanges are defined in terms of a *quid pro quo* and where contracts not human relationships establish a measure of (or substitute for) trust. Justice, for example, becomes a procedural manner (procedural justice), since there is no substantive good or purpose to bind people together. Prudence and judgment are replaced by managers' constant referral to procedures and regulations as the basis of their decisions, which are more concerned about process than outcomes.

Community of Persons: While the view of the corporation as an "association of individuals" is not without its own insight in terms of people's motivations, how incentives can be structured, procedures and

[34] From a practitioner's perspective, William O'Brien, former CEO of Hanover Insurance, explained that even in workplaces where people are treated well by enlightened human resource practices, they are still disenchanted and "frustrated because their work lacks meaning for them" (William J. O'Brien, *Character at Work* [New York: Paulist Press, 2008], 104).

processes to check and balance power, etc., it is simply one philosophical model of the corporation and, as we argue below, a morally thin one. Too many people come to regard businesses as mere exchanges having no capacity to unite them in any meaningful way beyond their individual interests. Neither, they come to understand, should they expect otherwise. These exchanges generate the unsettling sense of one being used and, in return, one using others at work. This results in the financialization of the firm, where its value is reduced to its price, and thus relationships with the firm's various stakeholders, employees, customers, suppliers, are reduced to economic exchanges. Yves Simon describes this association of individuals well when he wrote that the businessperson "may be better off as a result of their contract, but their contract will not relieve their lonesomeness."[35] While the stakeholder-centric approach of the firm is a step in the right direction by including more constituencies, it fails to step out of its philosophical orientation of an "association of individuals."

Within the CST, although Pius XI began to develop a view of the corporation as a partnership and community, it was not until 1991 that John Paul II provided one of the most explicit definitions of the purpose of business within Catholic social teachings by using the phrase "community of persons." He stated that the purpose of business cannot be "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 of society."[36] While the phrase "community of persons" is rarely used in business literature today, it actually gets closest to what might be meant by the word "company" and "corporation."[37] The etymology of the word "company" comes from "companions"—*cum,* meaning "with" and *panis,* meaning "bread," or breaking bread together. The etymology of the word corporation comes from the Latin *corpus*, which means "body," a *corps,* a group of people "united in one body." An *esprit de corps* is a shared spirit of companions who work for a common cause that is a force for good. These etymologies clue us into a deeper meaning of the

[35] Yves Simon, *Philosophy of Democratic Government* (Chicago: The University of Chicago Press, 1951): 65. See also Thomas R. Rourke, "Michael Novak and Yves R. Simon on the Common Good and Capitalism," *The Review of Politics* vol. 58, No. 2 (Spring 1996): 229-258.

[36] Pope John Paul II, *Centesimus annus* (Vatican City: Typis Polyglottis Vaticanis, 1991), 35.

[37] There are exceptions. See Henry Mintzberg, "Rebuilding Companies as Communities," *Harvard Business Review* 87:4 (2009): 1-5.

corporation. But first we need to return to the anthropological assumption that underpins a community of persons, and that is, "persons."

While it is true that human beings are individuals who have self-interests and seek utility, they are not *only* individuals but also persons with a spiritual and relational dimension. Rabbi Hillel captures the relationship between individual and person well when he wrote: "If I am not for myself who will be for me. But if I am only for myself what am I."[38] What makes our interests and desires good is how they are ordered and related to others and the Other, which is the basis of our growth into *persons*.[39] We grow as persons not through our shouts of autonomy or our calculations of self-interests, but through our relations, our bonds of communion, the goods we share in common, our self-gift in service to others. As an African proverb states: "A person becomes a person through other persons." The French personalist philosopher, Emmanuel Mounier, explains that "the person is only growing in so far as he is continually purifying himself from the individual within him." [40] Whereas, the "individual" is always drawing things into himself in terms of his calculation of costs and benefits, the "person" is always expanding the chain of solidarity with others. The individual sees only parts in reference to his particular interests, whereas the person attempts to see a whole and how his relationships impact the whole.

Students of course need not just theory but cases and examples. Companies such as Cadbury (Quaker), Malden Mills (Jewish), Herman Miller (Calvinist), Service Master, Chick-fil-A and Amway (Evangelical), Dayton Hudson now Target (Presbyterian), Cummings Engine (Disciples of Christ), Kikkoman (Buddhist), Marriot (Mormon), Cummins Engine (Disciples of Christ), Reell Precision Manufacturing (Lutheran/Covenant), Mondragon, The Opus Group, C&A, and Quimet-Cordon Bleu Foods Inc. (Catholic) and many others have had profoundly religious and moral influence.[41] They were not simply informed by legal and/or economic motives. The founders and leaders of these

[38] Rabbi Hillel, *Pirkei Avot*, http://www.shechem.org/torah/avot.html (accessed July 13, 2012), 1:14.

[39] See Maritain, *The Person and the Common Good,* 43.

[40] Emmanuel Mounier, *Personalism* (Notre Dame, IN: University of Notre Dame Press, 1952), 19.

[41] See Patrick E. Murphy and Georges Enderle, "Managerial Ethical Leadership: Examples Do Matter" *Business Ethics Quarterly* (Jan 1995): 117-128. See also Leo Paul Dana, "Religion as an Explanatory Variable for Entrepreneurship," *Entrepreneurship and Innovation* vol. 10 (2009), 87-99. See also Jeffrey Cornwall and Michael Naughton, *Bringing Your Business to Life* (Ventura, CA: Regal, 2008).

companies were culturally embedded in a faith tradition that influenced how they and their families understood business. This familial and religious culture imbued them with a theological vision and moral orientation that informed their practical decisions. They saw their company not as an association of individuals, but as a community of persons. While they were far from perfect, they attempted to humanize and civilize not only their own particular companies but the industries and communities in which they resided. For example, the Dayton Hudson Corporation (now the Target Corporation) had a major influence on the philanthropic character of businesses within Minnesota. This influence did not come from some instrumental business model that corporate giving would generate greater profits, but rather from a deep sense of solidarity and community through the biblical command that the poor have a claim to some of fruits of their work.[42]

Despite these positive examples throughout corporate history, the two reigning versions of how business is understood in the US are still the shareholder-centric (shares/returns) and stakeholder-centric (individuals/interests) approaches. From the perspective of a community of persons, the shareholder-centric view, for example, suffers from trying to found and sustain a company on the basis of profit and shareholder returns as the central motive and purpose of the firm. When the profit of a firm becomes its dominant purpose, alienation seeps in because there has been a "reversal of means and ends."[43] Profit is a means, not an end, and when it becomes an end it denies its possible gifted capacity to create authentic relationships among customers, employees, shareholders, and the larger community. When profit maximization is the principal motive of shareholders and leaders of the firm, workers begin to adopt a similar motive—wage maximization. This erodes the possibility of deeper bonds of communion since profit and wages do not by themselves have the capacity to bind people together in a way that enables them to flourish—they can only be allocated and not participated in to provide real relationships.

It is of critical importance to convey to students in their education that business motives matter and that they have corrosive effects when the means or results of an activity become its end and purpose. There are few lessons in business more powerful for students to learn than to

[42] See Brian Shapiro, Norman Cohen and Michael Naughton, "Leviticus on How to Make and Distribute Profit" (to be published in *Society and Business Review*).

[43] John Paul II, *Centesimus annus,* 41.

see that profit and wealth are good servants, but they are lousy and destructive masters.

When teaching students about this topic and its various philosophical orientations, it is important to help them think critically about a topic without a wholesale rejection. The above critique of the shareholder-centric view is not designed to lead students to reject outright the insights of this view. There is much to be gained for example from the emphasis in finance on important economic dimensions of the firm, such as: (1) that shareholders ought to receive fair returns; (2) that managerial and financial techniques can control costs so customers can pay lower prices; (3) that governance mechanisms ought to be developed to reduce shirking and disloyalty; (4) that efficiency must be achieved in economic exchanges; and so forth. The problem, for example, to convey to students is not finance but the financialization of business where the value of the firm is reduced to its price. When legal, economic, and financial theorists find in these dimensions alone the whole account of the firm and thereby reduce all relationships and mission to financial and legal exchanges, they create a small world and diminish a richer understanding of the purpose and operation of a business. They have turned finance and law from being a source of essential and necessary techniques for managing the economic and legal dimensions of the firm into a global monetized philosophy of the firm that prescribes maximizing shareholder wealth as its sole normative basis. That is, the discipline or function of finance and law now decrees how the firm *ought* to operate.[44] This is a classic danger to all disciplines—they turn their technique into a philosophy or end. Yet, a liberal and Catholic education in business demands a deeper unity of knowledge that can illuminate the relationship between means and ends.

Drawing upon the CST, a Catholic education can help the student move beyond not only a shareholder-centric view of the firm, but also beyond a stakeholder-centric view to a community of persons.[45] The stakeholder-centric view of the corporation is an important move in the right direction and we do not want to underestimate in particular the practical value and contribution that it has made. Nonetheless, it must develop a more comprehensive moral vision of the corporation as

[44] Charles Perrow, *Complex Organizations: A Critical Essay* (New York: Random House, 1986), 222.

[45] See Ken Goodpaster, "Corporate Responsibility and Its Constituents," in Brenkert and Beauchamp, eds., *Oxford Handbook of Business Ethics* (Oxford University Press, Oxford, 2009).

an institution rooted in the "community of persons" model if it is to contribute to the common good over the long term. Because the stakeholder-centric approach is too often still stuck in a highly individualistic anthropology that views a business as an association of individuals, it focuses principally on what individuals *have* in the firm (stakes/interests) rather than how persons *are in relation* to the firm (community/mission). Thus, all goods are *allocative* or distributed (profits, wages, prices, dividends, etc.), diminished when shared, and there is little consideration of *participative goods* (relationships, virtues, personal development, knowledge, etc.) which are not diminished when shared.

In the words of Benedict XVI, the stakeholder-centric approach struggles to provide "a *deeper critical evaluation of the category of relation*."[46] It brings to light the importance of managing the firm in a way that is accountable to its key stakeholders, but without a comprehensive moral vision of the deeper purpose, mission, and common good in which that person fits, the moral conditions of the firm will always be prone to exploitation.[47] We need a more comprehensive understanding of business that requires what Benedict states is "a *comprehensive picture of man* which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones."[48] A business governed solely by a principle of balancing interests to achieve an equilibrium among stakeholders "cannot produce the social cohesion" that is necessary to develop into a community of persons.[49]

Within this "community of persons" model we suggest a "mission-centric" approach to corporate purpose. This balances the interests of the various parties of the firm as in the stakeholder-centric approach, but also provides a framework to help owners and leaders of companies integrate a vision of the larger institutional mission of the corporation that is grounded in but transcends a view of the participants as "individuals." If the modern corporation cannot situate the particular interests of the various stakeholders "within the framework of a coherent vision of the common good," it will always be prone to fragmentation, forgetfulness, and ultimately corruption.[50]

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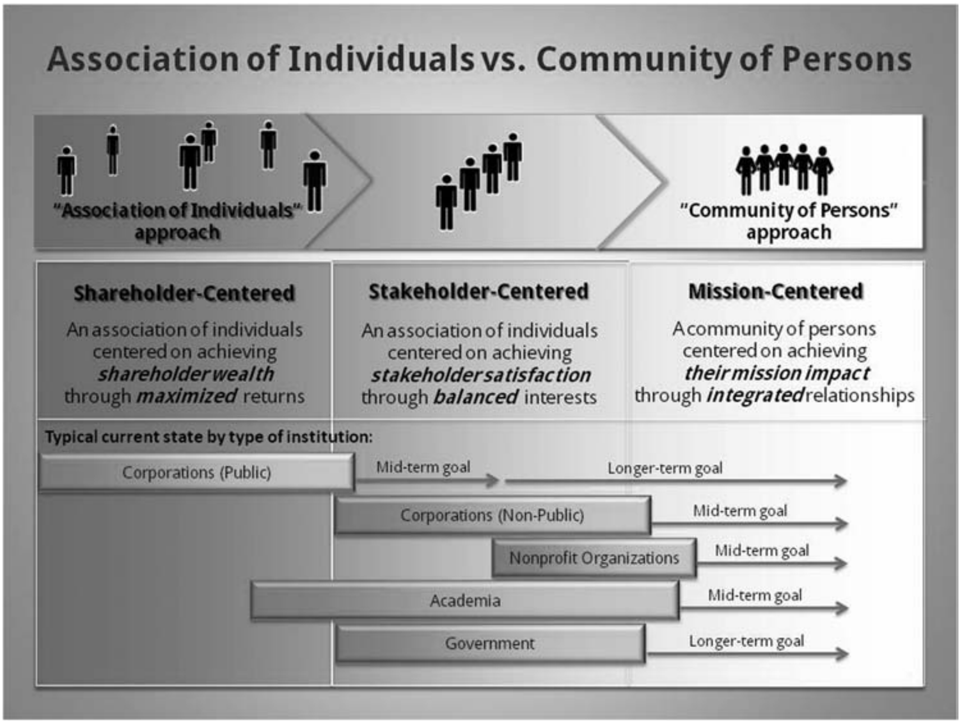
[46] Benedict XVI, *Caritas in veritate*, 53.
[47] This has been Benedict's critique of business ethics in general (Benedict XVI, *Caritas in veritate*, 45).
[48] Ibid, 36.
[49] Ibid, 35.
[50] John Paul II, *Centesimus annus,* 47.

The Current Situation on Corporate Purpose

The graphic below is a helpful pedagogical tool to provide students with an understanding of the current state of institutions regarding the two purpose orientations/models and the related three approaches described in the previous section of this paper, i.e., association of individuals (shareholder-centric and stakeholder-centric approaches) and community of persons (mission-centric approach). The graphic builds upon the continuum graphic given in section II and provides a bit more detail of the wide variety of business institutions and their corresponding purpose. While a precise categorization of current corporations would require extensive empirical work, it is important to give to students a high level view and more comprehensive picture of the wide variety of organizations now operating in the world.

Too often the business academy can get fixated on large publicly-traded companies as the prototypical model of business organizations. Overemphasizing this larger organizational setting can reinforce the all too common tendency of students to fall myopically into the mantra of "shareholder wealth maximization," unfortunately, a mantra picked up in finance classes. University education is a time to help students "see things whole." We believe that faculty need to teach and equip current and future leaders to begin the journey towards the healthier and more sustainable community of persons orientation, and its "mission-centric" approach to corporate purpose. The stakeholder-centric approach can be seen as a transitional view that begins to recognize the important social nature of the corporation and its impact on the common good, but it remains an association with a larger number of self-interested claimants.

The graphic depicts our views of the typical current state of firm theory and a possible mid-term and longer-term approach for these various institutional types. It explains that most of today's publicly-held companies operate in the "shareholder-centric" approach, with some using or moving toward some degree of the "stakeholder-centric" approach and perhaps a very few moving toward the "mission-centric" approach. Many non-public (closely held), entrepreneurial, and family businesses likely govern based on some degree of the "stakeholder-centric" approach and the "mission-centric" approach to corporate purpose. Family businesses in particular often have a more deeply mission-centric approach because they draw upon the cultural values found within the particularities of their family and they have a control



group committed to the mission. The graphic also indicates that the academy itself spans the gamut of business purposes and that government institutions are squarely in the stakeholder approach, indicating that a social contract or any other legally based understanding of the firm is not sufficient.

As stated in the preceding section, the shareholder-centric and stakeholder-centric approaches are morally thin views of the corporation (especially the pure shareholder-centric approach), notwithstanding they remain the predominant approaches in theory and practice. This view of corporate purpose has serious implications for corporate governance, which like corporate purpose, has not been adequately addressed in business education. Today, the governance of any institution involves the oversight, management, and monitoring of a complex system of increasingly interconnected processes and activities that comprise a human or social ecology. We can analogize the corporate institution and its governance system to a complex ecosystem found in nature. Like any other ecosystem, we believe the business institution must be viewed and understood holistically, recognizing that imbalance in any one area can undermine the integrative health and vibrancy of the entire system/institution.[51]

Conclusion: Toward Curricular Reform

Catholic universities and their business schools are uniquely well-suited to effectuate reform in teaching corporate purpose given their capacity to combine praxis and moral reflection. We advocate three steps toward reform in Catholic business education. First, we should obtain reliable data as to how, currently, Catholic business schools are treating the subject of corporate purpose. The Brookings Institute study can serve as a template for a survey designed to see whether corporate purpose is engaged in the curriculum, where courses or instruction on corporate purpose are offered, whether purpose is addressed in an appropriately holistic and integrated fashion, and how corporate purpose is addressed in relation to other important areas, especially corporate governance, but also strategy, ethics, finance, leadership, etc. The goal here is simply to take stock of current approaches to these subjects.

Second, by studying institutions of different types in various sectors that have taken a serious look at their purpose we can generate case studies that explore the concrete implications of corporate purpose in related areas such as corporate governance, finance, strategy, ethics,

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[51] See William Bojan's work on *Governance Eco-System* (www.solomon365.com) where he explains governance in terms of three structural dimensions: First, the advisory/oversight dimension (board of directors) should perform four key oversight roles: (1) governing of mission/vision/values, (2) governing of strategy, (3) governing of execution/management performance, and (4) governing of risk/controls. Ideally, the board is usually made up of a majority of persons that are independent of management with expertise necessary for the proper navigation of the institution. Second, the management dimension performs four key execution roles: (1) keeping the focus on the mission, vision, and values of the institution, (2) strategy setting, (3) execution of the strategy and reporting on the results, and (4) implementing appropriate controls to safeguard the institution. Third, the monitoring system, an often misunderstood, overlooked, and undervalued dimension of the Governance Eco-system, performs four key monitoring roles: (1) ensuring ethical behavior (often performed by an ethics function or other monitoring function around an organizational code of conduct), (2) ensuring sustainable/socially responsible activities (often part of increasingly popular Corporate Social Responsibility or Sustainability programs/initiatives), (3) ensuring the management of key risks (often performed by a risk monitoring or internal audit function), and (4) ensuring appropriate compliance with laws, regulations, and internal controls (often performed by internal audit and compliance functions, supported by external audit firms, law firms, and other external bodies).

and other business disciplines. These case studies—the stuff of much business education—can provide a trove of material for business students to discuss. For example, in what sectors (profit/nonprofit; public/private, etc.) do we see the most receptivity toward institutional self-evaluation in relation to purpose; what exactly was assessed; what weaknesses and deficiencies seemed to emerge most frequently when organizations take on a particular purpose or when they clearly examine and articulate their purpose; what influence does corporate purpose have on risk and return, treatment of employees, customers and suppliers, work hours of managers, etc. In this way, the role of purpose is not simply an abstract concern, but it is seen to have real implications in the marketplace and in business education.

Finally, following these steps, we can systematically begin to develop curricular reform within Catholic business education. All institutions are governed somehow and all institutions are working toward some purpose, acknowledged or not. Business students, who will govern and manage these institutions someday, should be guided in thinking deliberately and systematically about these leadership issues. As to corporate purpose, students should be made aware that, subject to market constraints, there may be more latitude in charting institutional direction than received wisdom—"lore"—might suggest. Such latitude is the precondition for the exercise of moral judgment. It is also the sign of a liberally educated business person, one who can think in terms of first principles and who in turn becomes a highly principled leader. Indeed, faulty beliefs about the supposed legal or market necessity of zealous profit maximization may lie behind the disturbing failure of many leaders to exercise sound moral judgment. Rather than questioning the underlying first principles, they accommodate themselves to the status quo of commercial exchange. When the unavoidability of discretion is made evident, however, the necessity of moral choice is more clearly seen. And it is here that a liberal education accompanied by a rich religious tradition of thought found within the CST can aid both business students and business leaders. A Catholic university can provide an important contributory voice to the current challenges of corporate purpose and the related issues of governance, strategy, leadership, finance, ethics, etc. so long as it both draws upon the richness of its own tradition and engages that tradition with the theory and practice of those involved in governance.