Religion & Liberty

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Economic Value Added: A Conscience for Business

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R&L: *In your opinion, what are the primary responsibilities of ethical business people in a free market society?*

Shiely: In my mind, there is one primary responsibility of business people in a free market society and that is the creation of value. The expectation of value creation is the primary reason society allows firms to exist. By value creation I mean the creation of value through integrative (pie expanding) relationships with the primary corporate constituencies of shareholders, lenders, customers, employees, suppliers, and the communities in which the firm does business. No sustainable economic value has ever been created by unethical business people.

R&L: *How would you defend the free market against critics who call for higher governmental regulation of the economy?*

Shiely: In the words of my friend Mervyn King, former Chief Justice of the Supreme Court of South Africa and an acknowledged international expert on corporate governance: "conformance destroys performance." As author of the King Report in 1994, Mervyn was a voice crying in the desert for more attention to corporate governance in the face of the excesses of the 1990s. Now that we have Sarbanes/Oxley, you'd be surprised at Mervyn's observation. Once again, he submits, we've got it wrong in that we've tried to reduce effective corporate governance to "ticking a series of boxes." The cornerstone of effective corporate governance is intellectual honesty, and that cannot be achieved through box ticking. It must be instilled in the agents in the free enterprise system. Moreover, economic value is created only by firms with unique value disciplines. All of the great value creators—Sam Walton at Wal-Mart, Bill Gates at Microsoft, and Herb Kelleher at Southwest Airlines—have been more than a little different. The kind of conformance enforced through this box ticking process seriously impedes the value creation process and is misplaced, as is the case with all excessive governmental regulation.

The most serious corruption occurs when there is no competition—in other words, a monopoly, which results either from government mandate or market failure.

***R&L:** What challenges face the free economy now and in the future?*

Shiely: I think two of the key challenges facing the free market economy in the future are globalization and corporate governance. The political environment is ripe for the zero sum crowd to push for protectionist trade regulations and enterprise smothering solutions. The key agents in the market economy, particularly CEOs, must do a better job of communicating the extraordinary benefits of global free enterprise and the dangers of taking the wind out of our economic sails through wrong-headed corporate governance initiatives.

***R&L:** What has been your personal experience of how business executives and laborers understand capitalism and business?*

Shiely: My experience has been mixed. As I view the quality of understanding of business through the prism of economic performance where the rubber meets the road, I do not draw a distinction between managers and shop floor folks. I have met very senior executives whose only real competence is "carving up the pie" in an effort to simply protect their positions until they qualify for a comfortable retirement. At the same time, I have met shop floor workers who understand the real life value creation process much better than the deans of many prestigious business schools.

***R&L:** Some contend that competition primarily foments antagonism and is therefore wholly corrupt. How would you respond to this contention?*

Shiely: Most people misunderstand competition. Competition is a process that forces us to refine our value disciplines and causes improvements in efficiency and effectiveness that cannot be achieved any other way. Those who view competition as "killing the other guy" most often compete away their own profits and often hurt the health of their industries. The most successful competitors are those firms which stake out a particular turf in their industry and practice the corresponding value discipline so keenly that other industry players avoid a knockdown confrontation with that firm as long as it continues to maintain the special competence in its niche. The most serious corruption occurs when there is no competition—in other words, a monopoly, which results either from government mandate or market failure. Those who say that competition is corrupt either don't understand the challenge of competitive positioning or are industry value killers claiming victimhood in the face of their own incompetence.

***R&L:** Does competition play a positive or negative role with respect to ethical business practice in the free market? Why?*

Shiely: Competition, practiced the way I set forth in the answer to the previous question, most certainly plays a positive role with respect to ethical business practices. The ham-fisted, wrong-headed competitor with a very short-term focus is most certainly subject to ethical lapses.

***R&L:** Have you ever encountered an example in which adhering to moral values did not facilitate the best economic interest of the company? How did you handle this circumstance?*

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Shiely: I have encountered many examples where someone else's concept of moral values conflicted with the best economic interest of my company. For example, unions will often assert that we have a moral obligation to continue to support operations that destroy economic value, and they will resist any efforts to develop an integrative solution. In so doing, they abrogate their responsibility to continually redeploy their membership in operations that produce a positive economic result. I can honestly say I've never faced an irresolvable conflict between my moral values and the economic health of my firm.

R&L: *You have co-authored a book entitled* The EVA Challenge: Implementing Value-Added Change in an Organization. *Of foundational importance to this book is the concept of Economic Value Added or EVA. How would you define EVA?*

In The Liberal Tradition

James Fenimore Cooper (1789–1851)

"Under really free institutions, government itself is no more than a concession of powers for the benefit of protection and association …. The essence of liberty is in the ultimate power to control, as residing in the body of the nation. Its form is exhibited through the responsibility of the public agents."

Illustrated by Vincent Harriger

James Cooper—he added "Fenimore" later—was born on September 15, 1789 in Burlington, New Jersey. He came from a devout, but eclectic religious family. While his parents were Quakers, they also attended Episcopal and Presbyterian services. The twelfth of thirteen children, of which only four brothers and two sisters survived childhood, Cooper attended a boarding school in Albany, New York, and then Yale College from 1803–1805. In 1806 he received a commission in the United States Navy and was eventually assigned to recruit sailors in New York City. In 1810, Cooper met Susan Augusta De Lancey, resigned his commission, and married her on New Year's Day, 1811.

Cooper's career as a writer began almost as a whim. The Cooper family had the custom of reading aloud during the long evenings. They had a standing order with a New York bookseller to receive the latest novels from England. While Cooper was reading one of these newly imported novels aloud, he threw it aside and exclaimed, "I could write you a better book than that myself!" Although his wife laughed at the idea, he was soon established as an exciting new presence on the nascent American literary scene. His most brilliant pieces of fiction were *The Leatherstocking Tales*—comprised of *The Deerslayer*, *The Last of the Mohicans*, *The Pathfinder*, *The Pioneers*, and *The Prairie*—all of which featured Natty Bumppo, Cooper's quintessential American hero. While Cooper's fiction certainly lacks the technical aspects of verisimilitude that contemporary novel readers have come to expect—a defect mercilessly exposed by the ever critical Mark Twain—his fiction captured the romantic landscape and imagination of the American frontier like no other author.

At the height of his popularity as a novelist, Cooper took his family to Europe to live there for seventeen years. When he returned to America in 1833, he entered into the controversial legal actions that would color the remainder of his life. In 1836 he plunged into a series of lawsuits designed to force his townspeople and a widening circle of Whig editors to respect the sanctity of private property and truth in journalism. *The American Democrat* (1838) lectured Americans on their political and social responsibilities. A keen observer of the political and cultural life of the United States, he never forgot the importance of civility and moral decency within his land of the free and home of the brave.

Source: *http://www2.bc.edu/~wallacej/jfc/jfcbio.html (containing a biographical sketch prepared by James Wallace, a member of the James Fenimore Cooper Society)*

Shiely: My favorite subject. EVA stands for "economic value added." It is a version of the concept of economic profit based on the work of Nobel Laureate Merton Miller and developed by well-regarded financial consultants Joel Stern and Bennett Stewart. It is fundamentally a microeconomic concept in which we develop performance metrics and incentives that produce behavioral changes, which cause employees to make decisions as if they were owners. In *Wealth of Nations*, Adam Smith observes that the "invisible hand" only works in practice where industry agents are owners. With the rise of professionally managed and widely held firms in the early twentieth century, there was a disconnect. The EVA discipline attempts to remedy that disconnect by charging company employees at both corporate and divisional levels with the cost of capital, forcing them to manage the company's assets as if they were their own. A more colloquial observation that makes the point is "who do you know that takes their Hertz rental car in for a car wash or oil change?"

R&L: *Why do you advocate for the implementation of an EVA approach in determining a company's value?*

Shiely: The value of any financial asset is the present value of all the future cash flows expected to be received from that asset. With its key focuses on cash-adjusting earnings and capital stewardship, EVA is a very effective tool for driving behavior in the firm that translates into a higher stock price. Extensive statistical research has proven that EVA bears a dramatically higher correlation to stock price changes than traditional measures such as earnings per share or return of equity.

R&L: *Is there any moral reason to use the EVA approach over traditional valuation techniques?*

Shiely: With its primary mission of creating value and primary means of service to others, the practice of the EVA discipline that we call "managing for value creation" has very strong underpinnings in many of the commonly recognized principles of business ethics. Numerous elements of managing for value have clearly identifiable moral and ethical support such as: the stewardship of economic capital (parable of the talents), premium stock options (you must deliver value to customers and shareholders before you can claim value for yourself), and the concept of mutually enabling relationships. I should note that, early in the development of our EVA discipline, we were influenced by the fine work of the Acton Institute and Laura Nash, who coincidentally was featured in a recent *Religion and Liberty* interview.

Konosuke Matsushita is recognized as one of the most incisive entrepreneurs of the twentieth century. The creator of hundreds of thousands of jobs and one of the world's leading consumer brands (Panasonic) probably said it best several decades ago: "If we cannot make a profit, that means we are committing a sort of crime against society. We take society's capital, we take their people, we take their materials, yet without a good profit, we are using precious resources that could be better used elsewhere."

R&L: *Has Briggs & Stratton been able to implement an EVA approach? Why or why not?*

Shiely: We began implementing our EVA program in 1989, have had a great deal of success with the program, and have gained a fair amount of notoriety in the corporate community for having done so. This has required a behavioral sea change in our organization, and, quite frankly, some of our folks could not make the transition. The key is that the uniform EVA decision making metric allows the organization to push decision making down to those levels in the firm where those decisions are best made. Most people are empowered by this new responsibility—a few don't want it. Our success is reflected in the fact that we have achieved positive EVA in 10 of the last 11 years. This is a remarkable achievement in that only about forty percent of firms earn a positive economic return in any given year.

With its primary mission of creating value and primary means of service to others, the practice of the EVA discipline that we call "managing for value creation" has very strong underpinnings in many of the commonly recognized principles of business ethics.

R&L: *Are there any particular challenges to ethical business practice posed by being an executive in a multi-billion dollar, multi-national corporate enterprise?*

Shiely: The greatest ethical challenge to large multi-national enterprises is the short-term focus of many of the market players. Anyone with any intellectual honesty should have known that the short term energy trading "ponzi" schemes and off balance sheet nonsense that was pursued by Enron executives in response to near term demands of the investment community and to the short term benefit of the perpetrators' pocketbooks could not be sustained. The problem is that most large firms do not have a solid framework for ethical conduct, nor do many of their CEO's have a well-developed early warning system for unethical conduct. Quite honestly, until the onset of Enronitis, few CEOs gave serious attention to ethical models. Under short-term pressure, ethical shading may soon turn into grand larceny. The first draft of my portions of the book, *The EVA Challenge* (which was published pre-Enron) included a chapter on the ethics of EVA. Most of that material was deleted from the final version of the book, as the editor doubted whether the material would resonate with the intended audience. I bet if we published the book today that would be a featured chapter.

The fundamental moral obligation of the firm (and the reason for its existence) is the maximization of delivered economic value.

R&L: *Do corporations have any moral obligation toward society beyond simply maximizing profits for their shareholders? If so, what would these moral obligations be? If not, why not?*

Shiely: The question is flawed as "maximizing profits" for shareholders is not the correct measure of performance in any event. The fundamental moral obligation of the firm (and the reason for its existence) is the maximization of delivered economic value. By my account, all other moral obligations pretty much fall in under that umbrella. The virtues of service to others, development of trust through consistency, empowerment, diligence, and such are all required for the creation of sustainable value.

R&L: *You have commented that good entrepreneurs create value within society. How do they do this?*

Shiely: The greatest value creators of the twentieth century have been those who have found a way to engage their corporate constituencies (employees, customers, suppliers, capital providers, and communities) in unique, mutually enabling relationships: e.g., Wal-Mart's supplier network; Southwest Airline's special customer relationship; Microsoft's unique bargain with its employees. These are all integrative (pie expanding) relationships. Entrepreneurs who succeed are very different (sometimes weird and quirky) in that they must swim against the tide of the status quo players in the market economy (unenlightened governments, traditional unions, entrenched management) who are distinctly distributive (pie splitting) in their approach to the market.

R&L: *How would you respond to critics who argue that entrepreneurs are motivated solely by greed and their own selfish interests?*

Shiely: Self-interest (or what some call greed) is a driving factor in the market economy. It is in large part what forces us to get out of our beds every morning to face the day. But if properly directed, this motivation can be harnessed to produce a result that is both economically rewarding and morally defensible. I have been very close to several entrepreneurs who have been very successful in business; some listed in *Forbes* 400 list of the richest people in America. Surprisingly, pure monetary reward is way down the list of what rings these guys' chimes. Creation of a successful franchise, superior customer satisfaction, positive community impact, and outstanding value creation are most likely to be at the top of their lists.

R&L: *How does your faith affect your management policies regarding shareholders and employees, especially during periods of sluggish economy?*

Shiely: I believe the direct introduction of faith concepts into management practices is largely unproductive. The claims of "Christian-based business" or adoption of a "what would Jesus do" approach is more likely than not to alienate some of the folks you need to achieve the economic success required to morally "earn your keep." I believe your faith should be critical in the development of the ethics of your management philosophy. At that point, important faith concepts are embedded in your management practice and need not be specifically referenced in corporate decision making. I really like Pope John Paul's practical but theologically sound take on decision making in the value creation process in a free economy from Section 32 of *Centesimus Annus*: "Important virtues are involved in this process, such as diligence, industriousness, prudence in undertaking reasonable risks, reliability, and fidelity in interpersonal relationships, as well as courage in carrying out decisions that are difficult and painful but necessary, both for the overall working of a business and in meeting possible set-backs."

Does a Business Corporation Have a Responsibility to Society?

Robert G. Kennedy

In 1946 Congress enacted changes in the tax code that permitted publicly-held business corporations to deduct charitable donations in amounts up to 5 percent of their federal taxable income. Congress, of course, did not require companies to make charitable donations, but it did wish to encourage them to do so. The legislation became one more landmark in a running controversy about corporate social responsibility.

Simply put, this controversy concerns the question of whether publicly-held business corporations (sole proprietorships and partnerships must be treated somewhat differently) have a duty to the communities in which they operate that goes beyond the duty to obey the law in the conduct of their operations. And if they have such a duty, questions remain about why they have that duty and what exactly it requires them to do.

The sources that Christians might ordinarily turn to for guidance on moral matters—Scripture and theological traditions—are somewhat ambiguous on the question of corporate social responsibility. On the one hand, both biblical and theological traditions are quite clear that we are our brother's keepers, that we have a duty to assist those in the community who are in need of help. The God of Israel has a special concern for the poor. Indeed, a clear sign of Israel's fidelity to the covenant is the care that the community has (or does not have) for the vulnerable, who are represented by the widow, the orphan, and the stranger in the land. Israel is encouraged to see these people as under the special protection of God and exhorted to care for them as God would (see, for example, Deut. 10:17–18; Isa. 10:1–4; Jer. 22:1–5; Zech. 7:9–10).

Jesus himself reinforces this obligation powerfully in such passages as Matt. 25:31–46, where he identifies himself with the hungry, the sick, and the stranger. A similar theme is echoed in the fathers of the church, such as St. Ambrose, St. Basil, and St. John Chrysostom, who regard aid to the poor and vulnerable as a fundamental Christian duty.

On the other hand, the obligations described in these and many other passages clearly refer either to individuals or to the community as a whole. No passage of which I am aware speaks to the duty of commercial organizations. This should not be surprising, since in biblical times commerce was relatively uncomplicated and ordinarily a personal affair. Scripture might speak of the duties of a merchant, but never of the duties of a company. Business corporations as we know them are, after all, a modern invention. In sum, then, if we consult Scripture for guidance, we will learn of a personal obligation to care for those in need but we will find nothing about a corporate obligation.

A similar pattern can be found in the reflections of theologians up to modern times. They exhort us to seek justice and to engage in works of charity but again, they see these as individual responsibilities and the question of whether voluntary commercial associations might have such responsibilities is never addressed.

More recently, though, the church has given sustained attention to the special situation of business corporations. Two papal encyclicals of the twentieth century, *Quadragesimo anno* (Pius XI, 1931) and *Centesimus annus* (John Paul II, 1991), explicitly discuss the role of business organizations in society. Both documents emphasize that it is legitimate for businesses to make a profit but they also insist that the fundamental rule governing the conduct of businesses is that they serve the common good. Neither document, however, suggests that business corporations have a social responsibility that goes beyond this, even in passages where this could be quite naturally discussed.

By contrast, the attention given to the study of business ethics over the last several decades has served to reinforce the conviction that business corporations have a social responsibility that requires them to use some of their resources to address needs in their communities. These resources may be cash, or physical property, or even the time and energy of their employees. Ordinarily, the needs addressed are outside the scope of the normal operations of the company. As a result, corporations make significant contributions to the arts or to social service organizations. In doing this, advocates argue, they are merely being good corporate citizens and giving something back to the society. We may call this the *strong view* of corporate social responsibility.

Many opponents of this view insist that business corporations have no responsibility to society beyond obeying the law as they go about their operations. Their principal and overriding responsibility is to shareholders and it is a responsibility to conduct the operations of the company in such a way as to maximize the wealth of these shareholders. We may call this the *weak view* of corporate social responsibility. Perhaps the best known proponent of the weak view is Milton Friedman, the Nobel laureate in economics.

In 1970 Friedman wrote an article for the *New York Times Magazine* in which he argued that business corporations best serve their societies when they increase their profitability. Furthermore, he said, executives of business corporations had no warrant to use the assets of the company for charitable purposes. To do so would constitute, in his judgment, an illicit tax on the shareholders since it would be a use of their money for public purposes that was neither lawfully required nor consensual. This article has probably become the most commonly reprinted essay in the business ethics literature (though it is normally offered as an example of wrong-headed thinking about the nature of business and about corporate social responsibility). Not surprisingly, Friedman has been misunderstood or misinterpreted to say that businesses need not be concerned about ethics in their pursuit of profit.

The modern publicly-held business corporation is an ingenious invention and it has never been given the credit it is due for the prosperity enjoyed by the Western and Western-like developed nations of the world.

Over the last decade or two, as some version of the strong view has become the common opinion in business schools and executive suites, thinking about the nature of the business corporation and its relationship to the community has also changed. Quite often the moral quality of a company has been evaluated in terms of its commitment to social responsibility. In practice, however, this has created at least two kinds of problems, which on occasion have been serious and which, in any event, should provoke us to reconsider the wisdom and soundness of the strong view of corporate social responsibility.

The first kind of problem is that the specific nature of corporate contributions sometimes becomes an obstacle to the successful conduct of business. For example, several companies have received unwelcome publicity and been the target of customer outrage because of their support for or opposition to Planned Parenthood. Some years ago, the Target Corporation (which famously donates 5 percent of its taxable income each year to arts and service organizations) came under criticism for its very modest support of a Planned Parenthood program unrelated to abortion services. When it decided to drop its support on the grounds that it was unnecessarily controversial, it then was threatened with boycotts from customers and investors who supported abortion rights. After a few weeks the company reinstated its small grant to Planned Parenthood but then, of course, it was threatened with boycotts by pro-life customers.

Earlier this year, Berkshire-Hathaway decided to curtail its corporate giving after customers of one of its companies objected to Warren Buffett's generous support of population control activities. More generally, socially-responsible investment funds often screen stocks by examining the company's corporate giving. As these funds have become larger and more numerous their impact on corporate giving practices is likely to be felt. In many cases, a contribution approved by one fund will cause another fund to reject the investment. In the future we will probably see more companies review, and perhaps reduce, their corporate giving in order to minimize interference with their core business operations and to avoid entailments that make their stock less attractive to investors.

A second sort of problem is more subtle but its effects have been brought home to us quite dramatically over the last two years. There can be a dark side to corporate philanthropy, as companies like Enron have demonstrated. Enron conducted a very generous corporate giving program and this, as we have seen in other cases, tended to make some people reluctant to examine the company's business practices too closely. In Enron's case, a member of the audit committee of the board was also a faculty member at a university which was a grateful beneficiary of the company's largesse. In other cases, corporate donations have funded projects directed by the spouses of members of Congress or other officials. And even where there are less egregious conflicts of interest, nonprofit organizations and the people who benefit from their services can bring influence to bear to support their donors over against the community as a whole (as for instance when artificial barriers prevent competitors from entering a marketplace).

For these reasons, and considering the lack of guidance we can find in Scripture and the church's teaching, we need to ask whether the strong view of corporate social responsibility is well-grounded in a proper understanding of the nature of a business corporation and whether it is an accurate description of whatever social responsibility they may have.

The modern publicly-held business corporation is an ingenious invention and it has never been given the credit it is due for the prosperity enjoyed by the Western and Western-like developed nations of the world. There is no question that corporations can and have abused their power, but without excusing this abuse, the corporate structure, when it has been properly employed, has been a key factor in the unprecedented growth in material prosperity that we have experienced. The corporation as a form of organization makes possible the gathering together of resources for long-term or complicated projects that other forms of business organization cannot stimulate. It endures beyond the career and lifetime of its founders, providing the possibility of more stable employment and customer service; it protects employees and investors from personal liability for the company's obligations, thereby practically freeing up large amounts of capital; and it discourages preferments based upon family and personal relationships and so rewards merit and hard work.

However, the very newness of the corporate form has caused us to puzzle about its nature. The law, for example, regards it as if it were a person for some purposes and as if it were an object of ownership for other purposes (while at the same time insisting that "persons" cannot be owned). In still other contexts, the law considers corporations not so much to be things as to be networks of contractual relationships. Nevertheless, in each of these instances the determining principle behind the relevant legal conception of the corporation is rooted not in some conclusion about the nature of the corporation but rather in a problem the law wishes to resolve. Treating the corporation as if it were a person or an object of ownership or a network of contracts allows the courts to resolve the problem at hand, but we should not be misled by this into thinking that the law has told us what a corporation truly is.

Ethicists, economists, and social scientists each similarly grasp an important piece of the whole, relevant to their own disciplines, without necessarily accurately describing the whole. Thus for ethicists the corporation is (or perhaps is not) a moral agent; for economists it is a set of relationships designed to optimize efficiency; for social scientists it is a social arrangement with its own culture, both like and unlike families and civil societies.

In truth, we need to think much more deeply—and in ways more open to enrichment from theological sources—about the distinctive character of voluntary associations of all sorts, not merely the special type that concerns us here, the business corporation. In place of this deeper examination, we may say this at least: corporations are specialized voluntary associations which (unlike families and civil societies) aim not at the comprehensive well-being of their members but at specific, limited goals. A bowling club exists to support its members' interest in bowling. We would not find fault with such a club if it did not also devote careful attention to its members' overall health, or their family relationships. It is simply not the business of a bowling club to intrude into these areas of its members' lives.

Like other voluntary associations, such as bowling clubs or gardening societies, corporations are, strictly speaking, indifferent (but not hostile) to the overall happiness of their members and focused instead on one or several elements of this happiness. Corporations should be concerned that their employees have meaningful work for which they are paid fairly, but need not take responsibility for their personal and spiritual lives. Nevertheless, this tight focus does in fact contribute to the well-being of people and enhances the common good of the community, thus conforming in its own way to the requirements of the Christian tradition.

Business corporations enhance the common good by providing good employment, by producing needed goods and services, and by creating wealth. Their potential to do this is so great, in fact, that the prosperity of a modern society can be directly correlated with the presence in the society of this corporate structure. In principle, therefore, the community permits and protects this form of association because it makes a particularly important contribution to the common good when it functions properly. And the community retains the right to regulate corporations in order to insure as far as possible that it does function properly and make this contribution.

Now all this may sound abstract and esoteric but there is a point to take away that is critical to the problem of corporate social responsibility. That point is that business corporations by their nature serve the common good when they function as they should. They are not grudging concessions made by the society to the greed of executives and investors. As a result, the primary social responsibility of a business corporation is, in fact, to make the contribution to the common good that it is uniquely structured to make. It need not justify its existence on the ground that it addresses broad social injustices or performs general works of charity.

Yet the rationale sometimes offered for the strong view of corporate social responsibility implies that producing economic benefits is not enough; business corporations must do more. Insisting, for example, that businesses must "give something back to the community" suggests both that they are not adequately contributing to the common good through their normal operations (which include paying taxes) and that their operations unfairly take something away from the community. Neither suggestion bears close examination.

When business corporations are created the community does not give something away. Instead, in order to pursue the economic benefits offered by the corporate structure the community offers something in exchange. It offers to recognize the corporation as a stable, enduring entity and to limit

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the civil liability of its members (i.e., its employees and investors). Any fair assessment of the impact of the corporate structure on communities would conclude that the communities sacrifice little and gain much. (Indeed, one might also fairly ask whether the exchange a community makes in sacrificing tax revenues in order to support non-profit corporations creates proportional benefits for the common good.)

Does all this mean that business corporations have no corporate social responsibility beyond conducting their operations within the law? Not quite. Where the strong view of corporate social responsibility demands too much, the weak view (that corporations need only obey the law) requires too little in light of the Christian tradition. Law by its very nature is reactive; laws and regulations are enacted to prevent harms we have experienced in the past from occurring again. They rarely, if ever, anticipate harms we have never experienced and offer advance protection. As a result, the law constitutes a minimal set of requirements for ethically sound behavior for individuals and organizations. (That we sometimes think laws or regulations become too detailed in their prescriptions is a different matter.)

Corporations, in other words, like morally upright individuals, have responsibilities that are not adequately described by laws and regulations. These genuine corporate social responsibilities concern both what they ought to avoid and what they ought to do.

For example, business corporations have a responsibility to avoid causing harms to the community (e.g., pollution) even when those harms are not prohibited by law. They have similar duties to avoid exploiting employees or manipulating customers, regardless of whether the specific sorts of exploitation or manipulation are subject to regulation. They also have a duty not to use their economic and political power to secure legislation that is unfairly favorable to them (such as artificial barriers to the entry of competitors to the market).

On the positive side, corporations have a duty to treat their major constituencies as fairly as they can. That is, they must seek to provide secure, well-compensated, meaningful employment, to produce goods and services that genuinely satisfy human needs, and to create wealth for investors. They should also be ready to address needs in their fields of operation that are not well served and may not be very profitable. For example, grocery wholesalers and retailers could be open to ways in which they could help to insure that no one in the community goes hungry; construction companies could explore ways in which affordable housing could be built; and pharmaceutical companies could propose creative and effective partnerships with government to make medications available more cheaply.

These examples do not exhaust the possibilities for discharging the responsibilities of business corporations to their communities but they do illustrate the direction in which these responsibilities run. Thoughtful readers will be able to recognize many other possibilities.

Does this mean that business corporations should not donate money or other assets to the community? Again, not quite. We began with the question of whether corporations had a responsibility to the society that they could only discharge by contributing some of their assets to address social needs. Such contributions, I have argued, are not morally required of corporations and so, in other words, I have rejected the strong view of corporate social responsibility.

Nevertheless, business corporations are at liberty to make whatever donations they wish to address whatever needs they choose. The key, of course, is the difference between obligation and freedom. What is not required may still be permitted. In the case of business corporations, donations may be made when doing so will not undermine the legitimate operations of the business, when employees and customers will not be harmed, and when shareholders consent.

Corporate philanthropy has accomplished a great deal of good. No doubt it should continue vigorously but not at the expense of a company's more fundamental and important corporate social responsibilities: to create wealth, to provide good jobs, and to offer products and services that serve genuine human needs.

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Duties of the Consumer

Andrew D. Muras

Discussions on just wages usually begin with statements like, “How can anyone live on $5.15 an hour and still raise a family? The minimum wage needs to be changed.” Or “How can we justify selling shirts in our stores for twenty-five or thirty dollars apiece when they were sewn in Latin American for fifty cents or less?”

From there the conversation often proceeds to blaming global businesses and capitalism for exploiting workers. Others blame misguided government initiatives. Everyone seems to be searching for a suitable scapegoat—usually in the form of big businesses or ineffective government policies. The discussions often end here as most throw up their hands on what to do about the problem.

Unfortunately, the discussion cannot just end, for as Pope John Paul II states, “a just wage is the concrete means of verifying the justice of the whole socioeconomic system.” Such words compel us to work continually towards just wages. But is this plea solely for business leaders, workers, and government institutions?

What of another player who is seldom mentioned in the just wages debate? Instead of unilaterally blaming large organizations, should we focus more on the actions of consumers? Could our own day-to-day individual buying decisions be partially to blame, or does this scapegoat hit too close to home for most to accept?

On a recent flight I was talking with my seatmate about shopping in the Internet age. We discussed the great prices you can get by watching weekly sales and shopping on-line. We traded stories on how prices in some industries, such as electronics and computers, actually decrease over time. We even joked in wondering how companies actually make any money with constant sales promotions and Internet competition. But as we exited the plane, I had a nagging feeling that such laughter might be a covering for our personal responsibilities in just wages.

As I realized later, this hint from my conscience was a reminder that something more was at work here. As consumers, our buying decisions influence the world around us, including the justice of our economic system. Therefore, it is our duty to understand how our decisions influence the business world, and then use this knowledge to help drive our future actions. Even if we remain outside the pull of the consumerist culture, we still have the responsibility to understand the consequences of our decisions.

Unfortunately, few of us consider our personal roles in the standard rallying cry for just wages. Maybe we hope to limit our culpability by not really knowing, although using the defense of invincible ignorance remains a poor option for the committed Christian.

So what’s the real issue here? As consumers we typically choose invincible ignorance since we seldom consider what it takes for stores to offer low prices and still make a profit. We don’t understand the consequences of stores constantly rolling-back their prices with bouncing yellow ‘smiley-faces.’

That ‘smiley-face’ we see in commercials could be the consumer, you and me. We love to pay less when we shop and often hunt for bargains. By comparing prices we get the best value for our hard-earned cash.

Even though we want prices to be low, we also want high wages. With more money in our pockets and low prices in stores our dollars stretch farther and we can increase our standard of living. But could our desires for high wages and low prices be somewhat in conflict? Let’s consider from common sense principles—Business 101.

Take Wal-Mart as an example. I’m only singling them out because they’re the best known at providing consumer goods at low prices. Customers love their ‘everyday low prices’ and have propelled Wal-Mart to become one of the largest corporations in the world. So how do they get such low prices? For one, they buy in bulk. More importantly, though, they focus on managing and controlling costs along the entire supply and distribution chain—a unique ability for which they are well-known in the business world. I recall a story from a small supplier: “I went in for a sales call as a tiny grape with small profits, and I came out a shriveled raisin.” The supplier may lament, but the consumer cheers; for Wal-Mart passes the savings directly to the consumer through lower prices.

So how does this affect just wages? Consider the supply chain and take the example from the earlier statement where a third world worker is paid fifty cents for a shirt that retails for twenty-five dollars. The worker's wages don't seem fair at first glance, or do they? Yes, the worker sewed the shirt. But when considering the total supply chain of providing a shirt for a customer, we could ask, who planted and harvested the cotton used to make the shirt? Or transported the cotton to the mill and had it woven and colored? Or designed the shirt's pattern and purchased the sewing machines? Or wrapped and packaged the shirt? Or loaded packages on a boat or truck for shipment? Or built the distribution centers and retail stores where the shirt is eventually sold? Or performed the accounting functions to track the financial numbers?

Did that single worker who sewed the shirt perform all these functions? No—the worker only contributed in one small part of the entire chain of events which supplied this shirt to the store. Maybe the fifty cents paid for sewing the shirt measures the true value of its contribution to the supply chain.

Some might be tempted to ask, "Why not just pay the worker more and I'm sure customers would be willing to pay a dollar or two extra for that shirt?" A noble thought, certainly. But if you pay that person more, what about all the other workers in the supply chain that contributed to the shirt? Shouldn't we also pay them more if we're truly concerned about increasing wages?

Few businesses exist solely to maximize profit. Most realize this is a fool's chase. Wall Street likes healthy profit margins (assuming correct accounting practices, of course). However, companies with high profitability tend to quickly attract competition.

The situation quickly gets more complicated, and expensive. If you raise everyone's wages, the question isn't whether the consumer's willing to pay an extra dollar or two more, but rather, would the consumer be willing to pay fifteen or twenty dollars more for that same shirt?

If you or I were in a store and saw two shirts of identical color, style, and quality sitting side by side, one priced at twenty-five dollars and the other at forty dollars, which would we buy? Most would probably choose the lower priced shirt.

Businesses know this. Through market research and sales analysis companies know pretty well what their customers are willing to pay. Therefore they design supply chains to produce their products at a price customers are willing to pay, but which still allows a profit. When businesses are forced to decrease costs in the marketplace, productivity enhancements can only go so far before wages must be affected. Either wages can be decreased or else portions of the supply chain get outsourced to lower wage countries.

Okay, this makes sense. But still companies make a lot of money, don't they? Why don't they just use their profits and pay workers a little bit more? Shouldn't companies follow the example of the vineyard owner in Matthew 20:1-20 and be more generous to their workers? Or as the late Stefan Cardinal Wyszynski commented,

> Did the householder need these men? Obviously not: otherwise he would have employed them from the morning onwards and not put himself to the expense of paying a full day's wage for barely an hour's work. No, the householder is concerned about something quite different: that no one should live without work.

Many other religious figures often site this passage in discussions with business leaders on how they should treat their workers. However, with all due respect to the Cardinal and others using this parable, I'm not sure how well it really applies to the business world. Did you ever wonder what happened when the owner in Matthew's parable went to find workers the second day? Do you think he found anyone willing to work in the morning when they knew they'd get the same pay for starting in the afternoon? Doubtful. In the business world companies and their managers must deal with basic human nature when hiring and paying workers and prudently use their profits.

Most people are surprised to learn that a large majority of businesses have profits of less than 7 percent. For example, we live in our business with after tax profits of 3–4 percent. Not great, but livable. All businesses are not profit 'rich,' and many are profit 'poor;' and this profit must be used judiciously for investment to survive long-term in the marketplace. Consider what Peter Drucker, one of the better management and business thinkers, states about profits, "the problem of any business is not the maximization of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss."

Few businesses exist solely to maximize profit. Most realize this is a fool's chase. Wall Street likes healthy profit margins (assuming correct accounting practices, of course). However, companies with high profitability tend to quickly attract competition. Soon prices begin falling and unless they change their products or lower profit margins, they may find themselves priced out of the market. Think what happens with the latest fads in toys, dolls, or electronic devices. Almost overnight it seems competitors enter the market with similar products, usually at lower prices, and soon begin taking away sales and profits.

This 'law of business competition' dictates why companies continually manage profitability through both pricing and striving for cost efficiencies. If you fail to manage your costs and prices effectively, your competitors will force the issue. Companies such as Intel and Dell have made this management practice a science as they continually lower prices on last quarter's electronics and computers. They could make higher profits in the short term, but it would dictate higher prices in the market place and soon their long-term viability could be threatened. In Business 101, there is no free lunch. Companies must continuously balance costs and profitability, pricing their products at levels where consumers are willing to buy, where they can make a profit and still remain viable against the competition.

Those same market forces on pricing and cost arise when discussing aspects of the minimum wage. For example, some cities have begun enacting living wage legislation requiring all contractors working for the city to pay their workers a minimum of ten to twelve dollars per hour. Again, this sounds great at first glance. But as a taxpayer, i.e., the consumer, how much more are you willing to pay in new taxes each year to cover these wage increases, $100, $1,000, $5,000? The money must come from somewhere. Just like in a business, the costs of production get passed to the consumer, or the taxpayer in this case.

These factors apply to just about everything we buy on a day-to-day basis. How much more would you be willing to pay for a Big Mac to support minimum wage increases? What about clothes or staples such as a gallon of milk and a loaf of bread? Would you be willing to pay 50 percent more, or even double the price, to support higher wages for workers? Just wages aren't just a concern for businesses and governments, they're directly influenced by decisions and desires of the consumer.

So what are we as consumers to do about it? We've seen how consumers play a role in just wages. Therefore we do have some culpability and can no longer hide behind invincible ignorance. Our consciences have been informed and as consumers we can make choices—maybe choices that influence the overall justice of our economic system. Again, to quote Pope John Paul II, "A given culture reveals its overall understanding of life through the choices it makes in production and consumption."

If consumers showed the willingness to pay more for 'just wage' goods and services, businesses would begin filling this market niche over time. Recall what happened with organic foods over the past decade. It took years before consumers decided they would pay more to cover the higher supply chain costs of growing organic fruits and vegetables and getting them to market. Today, wide varieties of organic foods are generally available and supported by the consumer, albeit at higher prices. Could something similar happen with 'just wage' clothes or food? A few companies have actually begun taking such an approach, though with mixed results to date. Consumers don't yet appear ready to embrace this concept.

Is it morally acceptable to still shop for the lowest price? Yes, for wages paid to workers constitute only one element in the total pricing decision. Also, wages paid along the supply chain might actually be socially just in many Third World countries. In addition, it's often difficult, if not impossible in today's environment, for consumers to determine how workers are paid for producing various products and services.

Is it morally acceptable to stick our head in the sand and not worry about how our buying decisions affect wages? No, for social justice principles dictate that we must work towards greater justice in our economic systems. Our future buying habits will influence what types of products and services companies eventually bring to the marketplace.

So the next time you're in a discussion about just wages, agree that yes, businesses and governments share some of the responsibility and the blame for paying workers fairly. But don't let the debate end there, for the scapegoat most responsible for just wages may be the person in the mirror—the consumer.

We can talk about the great deals we've gotten and wonder how companies stay in business. But our pocketbooks dictate our values. We appear to value low prices and the ability to buy stuff more than we value just wages. The question is whether we are willing to change our actions, even if it hurts our bank accounts?

Before passing judgment on corporations and governments, we should consider Jesus' warning in Matthew 7:1–5 and look inward to our actions as consumers. We just might find a large wooden beam there in our own eyes, obscuring our vision.

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Democracy Does Not Ensure Liberty

Alberto Mingardi

"Eighty years ago, Woodrow Wilson took America into the twentieth century with a challenge to make the world safe for democracy. As we enter the twenty-first century, our task is to make democracy safe for the world": the very significance of Fareed Zakaria's *The Future of Freedom: Illiberal Democracy at Home and Abroad* is condensed in its brilliant last paragraph. Dr. Zakaria, who is the editor of *Newsweek International* and a celebrated commentator, is not the first who tries to complete the geography of the limits and restrains to be imposed on this peculiar form of government.

This effort has been one of the *topoi* of classical liberalism in the last two centuries: classical liberals were not that much concerned with the question "how many people are choosing the rulers?" (democracy), but rather with the question "how should political power be restrained in order to be compatible with individual freedom?" (liberty). Zakaria goes back to the underpinning of this complex tradition of thought to demonstrate that freedom comes not from politicians' slavish obeisance to the whims of the people. Freedom comes only thanks to an intricate architecture of liberty, which basically consists of a whole set of institutions that counterbalance central power.

The Future of Freedom: Illiberal Democracy at Home and Abroad

by Fareed Zakaria

W. W. Norton & Company

288 pp. Hardcover: $24.95

The Future of Freedom is an eloquent defense of constitutional liberalism over mere majority rule, and it could not have come on the scene at a more appropriate time. Democracy—a *procedural* rule based upon frequent elections in a regime of universal franchise—is not per se the habitat of freedom. "For people in the West," Zakaria writes, "democracy means 'liberal democracy': a political system marked not only by free and fair elections but also by the rule of law, a separation of powers, and the protection of basic liberties of speech, assembly, religion, and property. But this bundle of freedoms—what might be termed 'constitutional liberal'—has nothing intrinsically to do with democracy and the two have not always gone together, even in the West." The fact that some modern dictatorships sprang from the "will of the people" is well known and acknowledged by Zakaria. But, in a sense, that does not surprise him: "constitutional liberalism," he writes, "is not about the procedures for selecting government but, rather, government's goals."

Political institutions should be evaluated not just for the goals they are pursuing—but for their efficiency in pursuing those very goals. That liberal constitutionalism has been enough for preserving individual freedom is a questionable proposition, and indeed that has been questioned by a relevant number of scholars. The renowned scholar Anthony de Jasay compared constitutions with a chastity belt intended to restrain political *libido*. But, he famously pointed out, "With its key always within reach, a chastity belt will at best delay before nature takes its course."

This metaphor reminds us that political constitutions are nevertheless written by human hands. Legislators have the power of writing and possibly re-writing and changing them. In an enlightening page of his *On Power*, Bertrand de Jouvenel quotes John of Salisbury's venerable distinction between tyranny and kingship. "Between a tyrant and a prince," he wrote in the *Policraticus*, "there is this single or chief difference, that the latter obeys the law and rules the people by its dictates, accounting himself as but their servant." This dichotomy was truly intelligible to the medieval man, who firmly believed that a law that was independent of political power, written in the sky and engraved in human hearts, truly existed. But modernity is fuelled by secularization: in our times, political authority must be not merely the enforcer of natural or consuetudinary law, but rather the *producer* of law.

Zakaria is right when he writes: "legitimacy is the elixir of political power .… Only democracy has that authority in the world today." But although democracy is perceived by most as a sufficient guarantee for individual liberty, that does not prove it really is. In a sense, *The Future of Freedom* is all about this point. Nevertheless, Zakaria merely substitutes constitutionalism for democracy and maintains that it is necessary to preserve liberty without questioning constitutionalism's own doctrinaire legitimization. Constitutionalism raises questions that deserve to be answered in detail.

Zakaria simply does not ask himself if constitutionalism is either theoretically consistent or historically efficient in preserving freedom. This fact, although being somewhat excusable in a book written for laypeople, constitutes a serious problem in the logical structure of the *The Future of Freedom*.

Zakaria understands perfectly what the spirit of a liberal constitution is: "Constitutions," he writes, "were also meant to tame the passions of the public, creating not simply democratic but deliberative governments." Fair enough, but did they succeed?

Zakaria provides a negative answer indirectly when examining the growth of government in recent years. "Since the early 1980s, three Republican presidents … one Republican speaker, and one Democrat president have tried to pare down government spending. But they bumped up against the reality of interest-group power. As a result, in eight years Reagan was able to close exactly four government programs of any note."

Zakaria's account of the "tyranny of the status quo" focuses more on the power of vested interest than it does on institutional reasons. That is an unfortunate deficiency, because the book itself deals greatly with the different performances of several institutional frameworks. What is truly valuable, in this analysis, is the role that Zakaria acknowledges for decentralization per se (and, so, its instrumentality in making democracy safer for the world).

For example, he recounts an interesting episode, well known to the scholars of the Austrian Empire. "That March [1895] Vienna had elected an ultranationalist, Karl Lueger, as mayor. Lueger's politics were ugly. He regularly likened Jews to locusts, demanding that they be crushed into the ground like fertilizer or packed onto ships and drowned at sea. The Habsburg emperor, Franz Joseph I, decided that Lueger's election was a threat to the city's civic liberty and, in an unprecedented move, refused to honor it." This was indeed, as Zakaria sharply notes, a celebration of "liberty *against* democracy" (emphasis added).

The late Erik von Kuehnelt-Leddihn told the story of Theodore Roosevelt calling on Emperor Franz Joseph and asking what possible point there could be to an emperor in the modern 20th century. Franz Joseph replied: "To protect my peoples from their governments." We could not possibly know if the great Emperor implied that, *vice versa*, a democracy did not know of such a protection.

It could be. But what made the Habsburgs' empire a still peerless institution, which had the great merit of preserving freedom for its citizen *vis-à-vis* the incoming menace of nationalism (and, indeed, *vis-à-vis* the liberals who preached nationalism at those times), is not monarchy per se. Rather, it is the fact that the Habsburg monarchy fit into a scheme of mutually limiting powers that made it impossible for a homogeneous central authority to take over.

Zakaria acknowledges this fact, and actually his account of the birth of freedom in the West is mostly Actonian. He follows Benjamin Constant's footsteps in distinguishing between the freedom perceived by the ancients and by the moderns: the latter being basically a negative freedom, not just the liberty to take a part in the government of the *polis* (as Ancient, Greek-democratic *eleutheria* was). Then, he reflects on what he calls "the paradox of Catholicism": "The church never saw itself as furthering individual liberty, but from the start it tenaciously opposed the power of the state and thus placed limits on monarchs' rule …. The Catholic Church was the first major institution in history that was independent of temporal authority and willing to challenge it. By doing this it cracked the edifice of state power, and in nooks and crannies individual liberty began to grow."

That is neither new nor is it original, but it is indeed interesting how Zakaria seeks to popularize certain findings and studies still both unknown to a larger audience and opposed by the Straussian neo-conservatives.

Nevertheless, Zakaria seems to believe that, although the Popes' actions unintentionally produced a higher degree of freedom, the Catholic Church is inherently an institution with little concern for individual liberty. There is really no fitting comparison between the church and political power. The Church is a voluntary organization: people who belong to it can freely exercise their right to exit. The Church's authority is moral, not political, and people subscribe to it without being coerced by anyone. We do not have to tithe to our bishops, but we must pay taxes to our politicians: this key fact is missed in Zakaria's analysis. Similarly, some may have doubts about his understanding of the market economy. He often pays lip service to private property and the market, but he does not seem to fully grasp their significance for personal freedom.

Even so, now that democracy has become a sacred cow, *The Future of Freedom* offers a welcome challenge to mainstream, established opinions. Zakaria's brave effort to distinguish between majority rule and individual freedom deserves to be carefully pondered.

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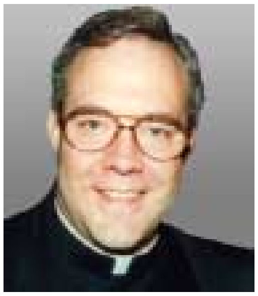
Another Look At Compassion and Welfare

Rev. Robert A. Sirico



Many of the current economic problems in the United States have their roots in a currently pressing moral malaise. In these times of moral turmoil many have mistakenly equivocated government-sponsored welfare with the virtue of compassion. Compassion is frequently cited as a reason to justify state supported social programs. So an important question needs to be raised: Is governmental welfare truly compassionate? Are the human needs of the people really served with governmental handouts?

The theory behind the welfare state is that people need material provision. While no one can argue with that, likewise no one should forget the other aspects of human life. It seems that many consider material giving to be the sole way a person can give. One result of this materialism is the belief that the more money that is allocated for specific programs the more compassionate and person-centered a nation's citizens become. This is a fallacy. Material provision apart from spiritual values is insufficient, empty, and not truly compassionate.

For example, if faced with a single woman with children who is experiencing severe financial difficulty, is it right and truly person-centered for our collective response to be sending her to an impersonal government building, having her stand in line, fill-out forms in triplicate, and then wait for the processing of a check? Does anyone in this process address the woman's fear? Has any one really reached out to her? Where is the broader concern for her family's *genuine welfare*? Giving her a check and sending her on her way is hardly a humane response. Compassion literally means to share in someone's passion, to stand with someone in their time of crisis. Are we really standing with this woman who needs more than our dollars?

> *The theory behind the welfare state is that people need material provision. While no one can argue with that, likewise no one should forget the other aspects of human life.*

More often than not there is a deeper story to someone's economic difficulties. Economic poverty is often accompanied by other forms of deprivation. Is this woman experiencing economic hardship due to a recent divorce? Does she have an adequate education or job skills? Does she have anyone other than a civil service clerk behind a government counter to stand with her in her difficulty?

Large government agencies are simply not equipped for the exercise of human compassion. Neither is it plausible to determine that our obligation to Christian charity is fulfilled by instituting a welfare state administered by the central government. Real charity reflects the diversity of the needy. Congressional committees and sprawling offices are not capable of adequately meeting the human needs of real people experiencing poverty.

True compassion requires the formation of private charities that can provide assistance to individuals right in their own communities. Smaller, less bureaucratic initiatives have a better chance of personalizing the aid given. Such groups would not be limited to merely issuing checks but could tailor their efforts to individual cases. The American people's charitable impulses provide a firmer foundation for compassion than the impersonal, Kafkaesque bureaucracy of the federal government.

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“More law, less freedom.”

—Cicero—