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Human Finitude and Specialized Production: A Christian-Realist Rationale for Business Enterprises*

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The instinctive reaction of many Christians, as well as other religious people, is negative when they think of *big business* or *profits*. We explore why business firms make good organizations for the production and supply of goods and services. To do so, we utilize some insights from Christian realism, a concept associated with the theology of Reinhold Niebuhr. We argue that human finitude is the root cause of the existence of such organization. Human finitude leads to specialization in production, and specialization creates the need to coordinate the actions of many people. The coordination problem is also affected by human finitude but is affected by human sin as well. We explore why the factors of human finitude and sin result in the current model of business enterprise's being the more successful model as a means of production and why Christians do not need to see this as a necessary evil.

Modern economies rely on firms to produce most of the goods and services that people use. There have been organizations that specialize in the production of goods and services for centuries, but many modern business firms differ substantively from earlier production organizations. The modern business firm is often very large and complex, employing a hierarchy that resembles that of governments and utilizing a corporate form of ownership. This is quite different from crafts production by guilds in preindustrial Europe or even the pin factory cited in Adam Smith's 1776 *An Inquiry into the Nature and Causes of the Wealth of Nations*.

How are Christians to think about business and the for-profit enterprises that produce most of the goods and services provided today? Why is the instinctive reaction on the part of so many Christians at the mention of *big business* or *profits* a negative one? We begin this discussion with an exploration of why there are these large, for-profit organizations that specialize in the production of goods that other people will use or consume. Such organizations do not have to be the type of business firm ubiquitous in modern economies; they could be government-owned and operated concerns, or communes, or cooperatives, or non-profit organizations. We argue that human finitude is the root cause of the existence of such organizations. Though at first glance, one might think that human finitude would lead to small, easily controlled institutions of production rather than large, complex organizations, in fact just the opposite has occurred. Human finitude leads to specialization in production: This finitude implies that we cannot be self-sufficient because we cannot know how to do everything. Adam Smith showed us long ago, and time continues to prove, that specialization of labor is productive, but specialization of labor ultimately involves specialized knowledge. Human beings must find ways to generate, maintain, transmit, and use the specialized knowledge needed for production and distribution. Further, the existence of specialization implies the need for coordination among the activities of producers and consumers in addition to the coordination of people and groups within the organizations of production.

Human finitude is not the only relevant factor in the development of the modern business organization; another is human sin. Due to sin, humans are often slothful, dishonest, envious, hateful, domineering, and selfish. One consequence of this is that coordination of the activities of people is more difficult. When people working together have different goals and objectives, often tainted by selfishness, conflict or disorder may result. Producers must find ways to convince these different individuals to cooperate and to work well together. An effective way of doing so is to align incentives such that the members of the organization behave in the desired manner. Incentive systems (which, though often monetary, do not necessarily need to be such) are used to coordinate many specialized groups of people with different personal or small group objectives and motivations. When people are slothful, dishonest, and selfish, appropriate incentives can motivate people to behave in the desired manner.

Below, we discuss how Christian realism aids our understanding and appreciation of what business enterprises are able to accomplish. Then we develop more fully the idea of specialization of labor and the coordination problems associated with specialization, drawing on both business and economic literatures. We briefly examine coordination by prices in the marketplace, and then develop more fully the necessity of coordination within the business firm, including a discussion of incentives. We will argue that it is the utilization of incentives in conjunction with marketplace competition that enables the business enterprise to operate more effectively than governments, cooperatives, or not-for-profit organizations in the production of many goods and services that people use or consume in today's complex global economy. We explore why the factors of human finitude and sin result in the current model of business enterprise's being the more successful model as a means of production and why Christians do not need to see this as a necessary evil—that, in fact, engaging in such business organization can be an honorable way to serve God and our fellow humans.

Christian Realism and the Business Firm

A theological approach that can help develop a foundation for business enterprises is the Christian realism associated with Reinhold Niebuhr. While Niebuhr himself was not an advocate for capitalism, we think his approach to analyzing human institutions is useful. Just as human beings are tainted by sin, so are all human institutions, whether business, government, or religious. It is not reasonable to expect perfection from human institutions, and the business enterprise is no exception. However, when using a pragmatic or realist approach, business enterprises can be seen as being effective in producing the goods and services that human beings want.

In their discussions, theologians tend to focus on the capitalistic system more than the business firm as an organization that produces goods or services. Many theologians are very critical of capitalism. For example, John Milbank advocates Christian socialism[1] and Kathryn Tanner thinks capitalism focuses too much on competitiveness and wants a theological economy or an economy of grace.[2] An approach that we think is helpful in analyzing the role of the business firm is Christian realism, which is associated with theologian and ethicist Reinhold Niebuhr, historian Herbert Butterfield, diplomat John Foster Dulles, international relations scholar Martin Wight, and theologian John C. Bennett. Christian realism was a reaction to the political and religious idealisms that were popular in the early third of the twentieth century. These idealisms included pacifism, Wilsonian liberalism, and the Social Gospel. Christian realism recognizes that self-interest, pride, and power are involved in political life as well as in economic life, and they are elements of any human institution.

We are not making the claim that Niebuhr or the other Christian realists endorsed capitalism or big business. Niebuhr's animus to capitalism is evident in several of his early important works, including *Moral Man and Immoral Society* and *The Nature and Destiny of Man*. Niebuhr particularly disliked Henry Ford and his firm after Niebuhr served as a pastor in the Detroit area.

However, we think two factors make it possible to utilize Christian realism's approach and themes in developing a more positive view of business enterprises. The first is that Niebuhr saw all human institutions as being tainted by sin, including political, economic, and religious institutions. The fact that some business people behave unethically or some firms become embroiled in scandal does not imply that all firms should be condemned just as the existence of scandals in government or in churches does not imply that all government branches or all churches should be condemned. Second, Christian realists claimed that the insights of the social sciences were useful in dealing with political and economic issues.[3] Many of Niebuhr's criticisms of the economic order of his day were shared by the economists of his day. Economists during the Great Depression were highly critical of many aspects of the contemporary economic order, and economists tended to focus on industrial concentration and monopoly power as at least part of the problem. Most modern economists see the economy today as inherently competitive. Further, modern economists tend to think that market systems work well, especially when compared to the centrally planned economies that failed in the former Soviet Union and its satellites. A Christian realist approach would give credence to the analyses of economists and other social scientists in thinking about the contemporary economic order.[4]

According to Eric Patterson, Niebuhr argued that various liberalisms shared a common credo that included the ideas that injustice is caused by ignorance; that the character of individuals mattered more than social systems in ensuring justice; and that appeals to love, justice, and good will are bound to be efficacious in the end.[5] Niebuhr wrote:

> Man is a sinner. His sin is defined as rebellion against God. The Christian estimate of human evil is so serious precisely because it places evil at the very centre of human personality: in the will. This evil cannot be regarded complacently as the inevitable consequence of his finiteness or the fruit of his involvement in the contingencies and necessities of nature. Sin is occasioned precisely by the fact that man refuses to admit his "creatureliness" and to acknowledge himself as merely a member of a total unity of life. He pretends to be more than he is.[6]

As Patterson notes concerning the liberal vision, "The Christian realists attacked this vision as utopian because it failed to take into account the sinful nature of individuals and their communities."[7] Many aspects of the liberal vision persist today. D. Stephen Long criticizes the use of Niebuhr and the focus on original sin by theologians who endorse capitalism.[8] He wants to focus on ecclesiology rather than anthropology as a foundation for economics. Milbank has written on the poverty of Niebuhrianism.[9] Milbank writes, "The first thing to be said about the notion that human finitude is an impassable barrier to the actualizing of the good life in the human world, is that it is Stoic in nature."[10] Milbank states that Niebuhr misunderstands original sin and says, "The biblically validated notion that our characters are formed and inhibited by our cultural ancestry plays no serious role in Niebuhr's thought."[11]

While liberal idealism bordering on utopianism still exists, libertarianism bordering on utopianism also exists. Ayn Rand's writings can be interpreted in this way. With this view, the individual is sovereign and, when left alone, can achieve great things.

The Christian realism approach offers a middle ground. The reality of sin implies that human efforts at Utopia, whether collectivist or individualist in nature, are doomed to failure. Human knowledge as individual creatures is finite, and human beings as sinners are flawed. Sin affects both individual behavior and the behavior of groups, whether the group is political, religious, or economic.

The economist Thomas Sowell argues that people have two conflicting visions about human nature and society.[12] He labels one vision the "unconstrained vision." People with the unconstrained vision see humans as basically good. Sowell uses William Godwin's *Enquiry Concerning Political Justice* to illustrate the unconstrained vision. According to Godwin, people do not need incentives to do certain things; they merely need a greater sense of social duty. Most of society's problems could be solved with better education and by placing so-called good people in positions of power and authority. Sowell calls the contrasting vision of human nature the "constrained vision." Niebuhr and the other Christian realists held to this constrained vision of the nature of human beings. The authors of the *Federalist Papers* and the framers of the U.S. Constitution operated with such a constrained view of humans when they advocated and created a government centered on separation of power, as does Adam Smith in his writings. While power is a necessary part of the social order, power corrupts, and the holders of power are always flawed people. Hence, with a constrained vision of human nature, limits on power are needed. These limits can be provided by checks and balances in the political order and by market competition in the economic order.[13]

Sowell argues that the constrained vision is not merely a vision of the political right (or the opposite of the liberal ideal). He claims that the constrained vision is not compatible with the extreme libertarianism, either, as associated with Ayn Rand and her followers. Sowell writes: "In the constrained vision, the individual is allowed great freedom precisely in order to serve *social ends*—which may be no part of the individual's purposes. Property rights, for example, are justified within the constrained vision not by any morally superior claims of the individual over society but precisely by claims for the efficiency or expediency of making social decisions through systematic incentives of market processes rather than by central planning."[14]

Patterson argues that Christian realism relied on Augustine's distinction between the City of God and the City of Man. Patterson states that Niebuhr was critical of Christian liberals,

> who confused the realities of the temporal political order and its justice with the eternal city and its ideals. The City of God was founded on the law of love and was an ideal that cannot be realized in this world. In contrast, we live in the earthly city and must work within its limitations to achieve "approximate" conditions of order and justice. In sum, Christian realists enjoined everyone to keep in mind the ideals of Christ's eternal kingdom but to work within the constraints of the present imperfect world.[15]

Theologians such as Long and Milbank make the same mistake as the liberals Niebuhr criticized. To argue for ecclesiology as the basis for the economic and political order, or to advocate Christian socialism is to conflate the City of God and the City of Man.

While Patterson was speaking more of the political order than the economic order, we think the same argument prevails for the economic order.[16] People need access to goods and services in order to live in most societies in today's world because people can no longer provide for their own needs and be self-sufficient. Hence, to participate in organizations that produce those goods and services—even when the organizations are not perfect—is appropriate work for the Christian.

Specialization of Labor and the Coordination Problem: Markets

Two propositions can be found in Adam Smith's discussion of the specialization of labor—specialization of labor is productive and specialization of labor is limited by the extent of the market.[17] For most of human history, the gains from specialization of labor were limited by small markets. The markets were small because the cost of transporting goods was very high. When the markets were small and most of the participants knew one another, it was possible to coordinate the actions of the participants by means of tradition or command. These coordination methods were used throughout much of human history and would include the Greek estate at the time of Aristotle or the agricultural economy in

Israel at the time of Solomon. It also would include the medieval manor and village life in parts of the world today.

Things changed when the accumulation of scientific knowledge, the development of private property rights (in Great Britain, the Netherlands, and some other parts of Europe), and the development of faster and more efficient modes of transportation (especially land transportation)[18] permitted the development and growth of industry. As markets expanded and the efficient scale of production for many goods increased, traditional methods of coordination proved to be inadequate. Command forms of coordination could not acquire and process the information needed to assure that the actions of larger and larger numbers of people were consistent. The economic environment was too dynamic for traditional means to successfully coordinate production and consumption. Ultimately, governments gave up trying to control the economy and allowed a decentralized market mechanism to develop that relied on producers' and consumers' utilizing the limited and local information they had to make decisions about what would be produced.

The increased production resulting from the ever-increasing specialization of labor does not need to be demonstrated because it is evident by the higher material living standards available today. We only note that a *Fortune* article recapping the twentieth century described the ideas of work specialization and scientific management as "increasing productivity so dramatically in so many industries for so many years that our prosperity today is unimaginable" without it.[19] Instead, we focus on some effects that are not as readily apparent and then on the coordination problems associated with specialization of labor.

Along with the increased specialization of labor comes an increased specialization of knowledge. This generates the somewhat paradoxical result that while the total quantity of knowledge has increased, the quantity and variety of knowledge needed for a person to *function* in society has not increased proportionately and for many has decreased.[20] For example, people who use cameras today do not need to know as much about the process of taking and developing pictures as people who used cameras a century ago. Similarly, millions of people use computers without knowing anything about computer languages. Examples could be added ad infinitum. Today, much of the knowledge is embodied in the goods themselves. We utilize knowledge and benefit from knowledge without having to acquire the knowledge ourselves.

Specialization of labor generates costs to society also. Some of these costs are readily apparent—the boredom associated with overly specialized, repetitive industrial processes, the unemployment associated with structural shifts in the economy, and the increased importance of specialized knowledge relative to general knowledge. We no longer expect to see a true Renaissance man who is an expert in all or even many fields of knowledge. Another cost, and the one we discuss further, is that associated with the coordination problem.

When labor is highly specialized and when society is large, economic transactions become more complicated. When a household purchases even a simple commodity such as a pencil or a shirt, hundreds and even thousands of people may have been involved in producing the product and getting it to the household. For example, a pencil utilizes graphite, clay (often from the Czech Republic), cedar (usually from the American South), glue, varnish, metal for the ferrule, and rubber, among other inputs. Dies are used in the process, of which some may be made of sapphire, as well as iron cylinders and crucibles. The latter are heated to two-thousand-degrees Fahrenheit. Of course, other people had to cut the lumber, work the wood to get the cedar slats, mine the ores for the metals used, produce and deliver the energy to heat the crucibles, and so on.[21] When an elementary school student uses a pencil, literally thousands of people were involved in its production.

Such specialized tasks require coordination. Somehow it has to be decided that some cedar is used for pencils while other cedar is used for different products, certain ores need to be mined, and so on. The cedar has to be cut into slats of a certain size and transported in the most efficient manner to the particular pencil factories. On any given day, billions of decisions are made that relate to meeting the demands for products of just a small portion of the U.S. economy. Somehow, all these decisions have to be coordinated so the person who wants a loaf of bread or a pencil is able to obtain the loaf of bread or pencil. Experience with the planned economies of the former Soviet Union and its satellites suggest that planning from above does not do a good job of coordination. One need only talk to people in Poland, for instance, about the empty store shelves of twenty years ago compared to the ready availability of almost any commodity one would wish to purchase today. A decentralized system that utilizes markets, prices, and price changes to achieve this coordination does so efficiently and in such an invisible way that it is seldom noticed or thought about by most people.

Economists emphasize the relatively seamless operation of the market system and how the market system economizes on information. An increase in the price of a good indicates that it is relatively scarcer than it used to be. Consumers have an incentive to buy less of the good while producers have an incentive to produce more of it. These responses are the kind of responses a planner would want to achieve. Consumers do not have to know why the price increased in order to behave in the correct manner. The billions of decisions made by people based on prices and price changes coordinate their actions such that those who want something are able to obtain it.

The efficiency of the market system and the decentralized decision-making involved in market exchange raises the question of why *all* economic transactions are not market transactions. If the decentralized market system works so well, why not resource the decisions that are made *within* the large organizations that are involved in producing goods and services by prices rather than by command decisions on the part of managers? The answer originally offered by Ronald Coase is that there are costs associated with market exchange—costs of imperfect information and costs associated with transactions.[22] The literature that developed from Coase's initial insight is enormous and considers factors such as imperfect information, the productivity of team production, specialized knowledge, legal issues, and specialized situations (such as when one party to a contract has a large financial incentive to renege on the contract) as reasons for resources to not be allocated by prices within the firm. While these specific tracks differ in their approaches and emphases, all agree that the way in which resources are allocated across activities within a firm differs substantively from the way in which resources are allocated by the market system.

Specialization of Labor and the Coordination Problem: Business Firms

We propose that Christian realism not only implies broad constraints on the firm because of human finitude and sin but also specific constraints on the management of the firm. We have seen that the degree of coordination necessary across firms in the marketplace increased exponentially as the complexity of our products and the means of producing the products increased and that human finitude prohibits the effectiveness of a command form of resource allocation from succeeding in today's economy. Similarly, the reality of human sin requires some sort of check and balance, reflective decision-making, and coordination to insure good stewardship of resources. This is especially difficult given that our finitude and sinfulness affects us in many, often less observable, ways. We have imperfect decision-making abilities and typically do not act as ultrarational decision-makers.[23]

Management within the firm must accept this reality about themselves and those they lead. Management must seek to apply advances in social sciences in a way that strives to manage the constraints imposed by finitude and sin while advancing human welfare. That is, human finitude and sin create specific challenges within the firm where core management tasks such as organizing, planning, and controlling must result in specific decisions in the face of imperfect information and sometimes sinful inclinations. Peter Drucker emphasized this in his early assessment of management, noting that a firm's resources will never result in a productive betterment of humanity or social justice without effective management.[24] We will discuss how the management of a firm can respond to the realities of human finitude and sinfulness, in particular addressing the issue of specialization and the use of incentives to achieve coordination.

To produce a good or service requires specialized knowledge. Some products require more and varied types of knowledge but all require some specialized knowledge. Again, consider a pencil manufacturer. As noted in the previous section, the production of a pencil requires many kinds of materials and equipment, many of which the pencil manufacturer itself does not produce. Still, management must decide whether to produce the eraser as part of the firm or purchase it from another firm that produces erasers. The same is true for the varnish, paint, graphite, and other materials needed to make a pencil, as well as the energy, machinery and other inputs used in the production process. The pencil manufacturer may decide that it does not have the necessary specialized knowledge to do some of the tasks and recognizes that it would be very costly in terms of time and resources to obtain the knowledge. Instead, the pencil manufacturer purchases many of the inputs. Management needs to determine what it needs to know and what it does not need to know.

However, because of human finitude, managers have imperfect decision-making ability and are prone to make mistakes. Further, sin and the pride often associated with sin can lead the manager to overestimate his or her ability to make good decisions. Successful firms develop systems and feedback mechanisms that reduce the likelihood of mistakes. Those that fail to do so usually are punished by the marketplace, although this may take some time. For example, the American automakers have been slow to change their approaches for determining the types of cars people want and have lost market share to foreign producers, especially Japanese producers. The discipline provided by the marketplace in determining what goods and services a firm should offer is an important factor in the workings of our modern economy.

The firm is an organization that specializes in producing certain goods or services. Within the firm, many specialized tasks are performed in the process of producing that good or service. To achieve the ends of the firm, the tasks performed by many workers must be coordinated. For the firm or any organization, two fundamental organizational requirements involve specialization of labor and coordination. Henry Mintzberg notes, "Every organized human activity—from making pots to placing a man on the moon—gives rise to two fundamental and opposing requirements: the division of labor into various tasks, and the coordination of these tasks to accomplish the activity. The structure of the organization can be defined simply as the ways in which labor is divided into distinct tasks and coordination is achieved among these tasks."[25] Though management theorists differ in their assessment of the most productive way to achieve specialization and coordination, every classic management theorist from Frederick Taylor, Max Weber, and Henri Fayol up to and including Peter Drucker would agree that these are fundamental management tasks.

To be successful, a firm must determine the extent to which production is divided into specialized tasks in order to achieve the greatest gains from specialization of labor relative to the difficulty of coordinating the various tasks. The firm must also determine what information is needed for making good decisions, what information workers need to do their jobs, and how to facilitate the flow of information. Members of the firm who are making such decisions may have differing, often competing or conflicting motives. This conflict can take the form of disagreement over the proper goals for the organization, or the conflict can result when some members do not care about the goals of the firm but only care about themselves or their small group.

Thus, the management of a firm must not only decide how to specialize and separate the work to be performed but must then find ways to organize tasks (what tasks are grouped together), coordinate the different tasks (where does authority and decision-making reside to ensure that the work of each individual or group combines to produce the end product or service), and get people to cooperate (to achieve the goals set by the management team). Human finitude and sin exacerbate the difficulties facing management. Managers cannot have all the information they would like to have to make decisions; they lack the ability to always process the information that is available; and they must work with people who may have different, perhaps very selfish, agendas and goals. Further, managers are also tainted by sin so their motivations, treatment of subordinates, and personal agendas can also increase the problems associated with coordination.

Private enterprise offers several advantages as an organization of production in coping with these problems. First, firms face competition from other firms, which means they have to be adaptable to changes in the external market and have to provide the goods and services that their customers want at a satisfactory price and quality. As we have shown, market competition provides a discipline to firms, whose owners and investors expect a profit if they are to keep their capital with the organization. Market competition punishes those who fail to obtain and collect the information needed to make good decisions and also punishes firms who fail to adequately solve the cooperation problem. Second, profits provide a metric to help an organization know whether it is performing well or not, often in a more expedient way than waiting for market competition to do its work. Third, private enterprise offers great diversity in the types of goods offered, the services accompanying the goods, the types of production processes employed, and the way capital and labor work together. Industries are composed of firms that differ markedly in size, scope, kind of workers employed (skilled or unskilled), technology used, and services offered. Some firms offer a product for all segments of a market while others concentrate on a particular niche. Fourth, in the absence of government interference, firms either adapt to changing circumstances or eventually go out of business. A reliance on private enterprises for most production ensures that when change comes, whether technological change or competition from China or India, there will be organizations that adapt or new organizations that are formed to cope with the change. If existing firms do not make the appropriate changes, new firms will enter and do so. For example, when IBM and other computer manufacturers concentrated on large systems for businesses, new firms such as Apple developed computers for individuals and households.

Profits are important in the economic order that utilizes private enterprises. Although management theorists would argue as to whether profits are the *goal* of a firm or the *results* of successfully achieving other overarching goals, the economic function of profits clearly provides both an incentive for managers to move resources away from goods and services that people do not want to goods and services that people value as well as a signal to investors regarding how efficiently a firm's management is allocating and using resources within the firm. The necessity for earning profits induces the managers of firms to make effective decisions regarding which goods and services to offer and the markets in which to offer them, to find ways to make the organization work efficiently, and to provide incentives that align the motivations of workers with the goals of the firm. If human beings were not tainted by sin, perhaps these incentives would not be needed. However, given human beings as we are, it is difficult to see how large-scale production could take place without such incentives to coordinate the work of many individuals with different talents and motives toward a common goal.

The basic tasks of a manager in any organization, as initially proposed by French industrialist Henri Fayol in the early part of the twentieth century and then incorporated into management textbooks from the 1950s on, are to plan, organize, lead (or direct), and control. All these tasks evolved because of the need to coordinate the various activities and obtain the cooperation of the many people performing particular, specialized work within the firm. Specialization begins in the planning task, where the organization's core competency and unique mission are identified. The core competency has to do with what the organization does very well that distinguishes it from other firms—a particular technology, process, body of knowledge, or approach to business. The organization then would determine strategies to use to develop this uniqueness. It is in the planning process that innovation of all sorts can occur as the organization seeks to establish and maintain its specialized role in the marketplace.

Because one person cannot perform all tasks in most modern organizations, people must be hired into various specialized roles. This is the organizing task described by Fayol and the coordination task referred to by Mintzberg. These roles or jobs must be structured in such a way that the output of one person's labor serves as input to others at the appropriate time and place. It must be determined who has the ability and authority to allocate resources and make decisions. A structure of reporting relationships emerges, describing the specialized role of each person or department within the organization as a whole as well as how each person and department relates to all others. This organizational chart may be formal or informal, but both the specialization and coordination must be there. Engineers, accountants, marketers, trainers, managers, salespeople, janitors, machine operators, and data-entry operators all have their role in the organizational structure. Managers do not need to be able to do all the tasks or even to know how people perform their work; they just need to know how everyone fits into the overall scheme of things and how to coordinate their work in order to be most productive in accomplishing the firm's goals.

Because all parts of an organization have their specialized work to do, the manager's specialized task becomes one of leadership. This consists of communicating the plan and overall goals to all parts of the organization, explaining how the various parts of the firm are organized and how they must work together, and directing and motivating workers to want to work diligently in performing their tasks toward achieving the organization's goals. Providing leadership by making good decisions has been identified by Peter Drucker as the essential task of a manager.[26] Because good decisions are most often based on the availability of information and managers' ability to intelligently analyze that information, the process of information management becomes crucial in the success of organizations, which we will discuss in more detail below.

Specialization within organizations also brings about the need for control processes. Because a manager is not self-sufficient and cannot know how to best perform each task within the firm, control processes must be established to monitor the performance of the various parts of the organization toward accomplishing the overall goals. In itself a type of information management, effective control processes not only monitor performance but identify the gaps between performance and plan and may even provide the information needed to make decisions regarding how to correct such gaps. Good control processes provide timely and accurate information about the performance of all parts of the organization, giving managers the snapshots necessary to make decisions about corrective action.

We do not claim that private enterprises always perform well. They do not, and examples of failed enterprises abound. Further, along the line of Niehbur's thinking, organizations may be more prone to sin than individuals because a group mentality may set in where the members of the firm see themselves as confronting a hostile environment. For example, a firm can be manipulated by management to induce behavior by subordinates (as well as themselves) that is unethical and even illegal.

Even when management is trying to create good incentives, management must be careful to craft incentives well or they can lead to undesirable behavior. For example, a firm that is manufacturing furniture and hoping to develop a chair that could be sold worldwide in order to leverage their capital investment may find it difficult to achieve such a goal if the incentives (whether monetary, emotional, performance, or rewards of some other type) in place for the engineers are based solely on the sales of chairs within the United States. These engineers would have no incentive to spend time gathering legal standards and cultural expectations for products in other parts of the world. In fact, many organizations unintentionally motivate organizationally suboptimal behaviors with incentives: If the research and development group in such a firm receives incentives and rewards, both monetary and psychological, based solely on the performance of the U.S. operation, it is unlikely that the firm would ever develop a "world chair." Once the incentives are based on the performance of the company worldwide, the motivation of the engineers changes to incorporate time studying legal requirements and cultural preferences of other countries into their research process for designing one chair that can be sold worldwide. The economies of scale involved in the production of one chair, rather than the production of many different chairs, not only results in more efficiencies for the firm—they have a single product that can be sold in many countries—but also the possibility of lower prices for customers. In such a way, incentives can be used to not only achieve firm goals but also, in the end, to better serve society's needs. Particularly in the case of today's global economy, business enterprises that are able to cross political and geographic boundaries to fulfill common needs for products and services are serving societies in a positive way by offering many more such goods than might be available locally and, because of the economies of scale, at a more attractive price to the end consumers.

The modern business firm would seem to be particularly well-suited for the implementation of effective incentives to encourage individual and small-group motivation toward larger organizational goals. The profit motive enables incentives that reward individual and small-group achievement but can be positively manipulated so they only reward behaviors that serve the organization as a whole. In other words, no one benefits if the organization as a whole does not perform well. Research by Jeffrey Pfeffer indicates, in fact, that successful organizations put in place incentive compensation based on overall corporate performance rather than individual, departmental, or even business-unit performance.[27]

Alternatives to Business Enterprises

We have argued that business enterprises are relatively efficient organizations for producing goods and services because of the high-powered incentives they can employ in achieving their goals. It is also obvious that there are other types of organization that produce goods and services in the economy. For example, government agencies, government-owned firms, communes, cooperatives, and not-for-profit organizations produce some goods or services. Many municipalities in the United States own the local electric or water utility and the federal government owns the United States Postal Service. States have departments that sell licenses to hunters or fishermen and also try to monitor the wildlife in the state. Agricultural cooperatives are common. Hospice provides many end-of-life services for terminally ill patients and their families that could be provided by doctors, nurses, and social workers in a private practice or in medical clinics but is a non-profit organization. Hospitals exist that are firms in that they are profit-making, while others are owned by government or by religious organizations or other non-profit entities.

Because all of these organizational types exist simultaneously, it cannot be claimed that one type is superior to another type of organization in all cases. However, these other types of organizations are effective in more limited settings. The government is the only entity in society that has the legal power to coerce. In most places where government has been involved in producing goods and services, they have not permitted competitors to the government producer. The U.S. Postal Service has vigorously protected its legal monopoly on first-class mail, for example. Because it is competition that provides a check on the actions of an organization, innovation is more likely to emerge when numerous organizations are producing a good and trying different ways of organizing their activities. We think most people would agree that employees of retail stores are more accommodating than employees of the departments of motor vehicles of most states. Prison industries often manufacture furniture, but the only way they have a market for their products is through laws dictating that other government agencies must purchase them; when given a choice, these agencies opt for more innovative products produced by the private sector.

Non-profit organizations are utilized in the United States to offer many services, although they usually are not involved in manufacturing. Non-profits differ from profit-making organizations in several ways. The boards of non-profits cannot be taken over by the board of another organization as can happen with private enterprises. Surplus funds cannot be distributed to the management or workers in the organization. Non-profits often receive some or even most of their funds from donors. The donations are often tax-deductible for the donors, and the organization does not pay taxes on profits because there are no profits. It is difficult to see how an organizational form that relies heavily on donors would be suitable for producing most goods and services. While it is understandable that people give money to churches and organizations that try to provide homes or other products to poor families, it is unlikely that a non-profit organization trying to produce and sell car radios would attract many donations. The funds to produce the radios would have to come from sales of the radios. The distinction between profit and non-profit would soon be lost.

Some Christians and theologians mention worker cooperatives as an alternative to either government-owned firms or typical business enterprises. As noted earlier, John Milbank and others in the radical orthodoxy movement call for Christian socialism and refer to attempts at worker cooperatives in the mid-nineteenth century in England and France as examples. However, once the English cooperatives lost the financial support of some wealthy donors, they could not survive.[28] A more recent example of a successful worker cooperative is Mondragon from the Basque region of France and Spain. Perhaps its success will lead to imitators, although that has not happened yet. One advantage Mondragon has that might be difficult to replicate elsewhere is the homogeneity of the people in the organization. The Basque region has been vocal in seeking independence from Spain, and the people in the region focus on their ethnicity. The solidarity in the region is greater than would be typical in locations in the United States.

Worker cooperatives face difficulties when the scale of production has to be large or when the workers who produce a product are heterogeneous. Auto workers are more varied than plumbers, so a cooperative would find it difficult to produce automobiles. The worker cooperatives in London during the nineteenth century often were associated more with craft-type production than industrial production. Further, the larger the organization the more a cooperative would start to look like a corporation, with the people elected to run the organization more removed from the workers themselves. It may be the case that worker cooperatives could succeed on a greater scale than exists today, but there is no reason why they could not form and compete in the marketplace today. Employee-owned companies in the United States are an example. Such companies exist in many industries, and they are managed on a day-to-day basis in the same manner as any other for-profit business enterprise—only the composition of the investors is different. The same profit motive and market dynamics must drive decisions if they want to stay in business, and the same issues of specialization and coordination must be addressed.

Conclusion

We offer a view of the business firm as a specialized organization existing to produce goods or services. Such business firms exist because the specialization of labor is productive. Human beings are finite and cannot be self-sufficient. Further, human beings are tainted by sin and often are selfish, slothful, and even dishonest. To encourage people to cooperate in producing goods and services, organizations must develop methods to coordinate their behavior and find ways to motivate people to behave in the desired fashion. Private-enterprise firms can use powerful incentives, such as incentive compensation systems, to induce the desired behavior. While Christians may lament the use of such incentives, a realist position acknowledges the need for incentives, either monetary or psychological, when attempting to coordinate large numbers of people performing specialized tasks. Further, we must acknowledge that people who work in government or other non-profit organizations are also human and therefore tainted by sin; therefore, these organizations are certainly not free from corruption or other unethical behaviors even without the profit motive.

The constrained view of human nature that underlies our analysis implies that often private enterprise will disappoint us. Poorly designed incentive contracts may lead to poor behavior and even disasters, such as occurred with recent well-publicized business scandals. So long as we live in the City of Man rather than the City of God we do not expect perfection from business firms, government agencies, or the church. However, this is no reason for Christians to avoid, or feel corrupted by, applying their God-given talents in an effort to help business firms succeed in their quest to provide needed goods and services for society.

Notes

* Note: Thanks to Stacy Jackson, Stephen Grabill, and an anonymous referee for comments on an earlier version of this article. We remain responsible for any errors or omissions.

1. John Milbank, *Theology and Social Theory: Beyond Secular Reason* (Oxford: Blackwell, 1990).
2. Kathryn Tanner, *Economy of Grace* (Minneapolis: Fortress Press, 2005).
3. Eric Patterson, "Niebuhr and His Contemporaries: Introduction to Christian Realism," in *Christian Realists: Reassessing the Contributions of Niebuhr and His Contemporaries*, ed. Eric Patterson (Lanham, Md.: University Press of America, 2003), 9.
4. This is quite different from radical orthodoxy and its insistence that there is no room for dialogue between theology and social science. See James K. A. Smith, *Introducing Radical Orthodoxy: Mapping a Post-Secular Theology* (Grand Rapids: Baker Academic, 2004), 167.
5. Patterson, "Niebuhr," 11.
6. Reinhold Niebuhr, *The Nature and Destiny of Man: Volume 1, Human Nature* (New York: Charles Scribner's Sons, 1941), 16.
7. Patterson, "Niebuhr," 10.
8. D. Stephen Long, *Divine Economy: Theology and the Market* (London: Routledge, 2000).
9. John Milbank, *The Word Made Strange: Theology, Language, Culture* (Malden, Mass.: Blackwell Publishing, 1997), 233–54.
10. Ibid., 235.
11. Ibid., 243.
12. Thomas Sowell, *A Conflict of Visions* (New York: William Morrow, 1987).
13. Government regulation can also influence the behavior of firms in the marketplace, but the constrained vision would see that regulation may not always improve situations because the regulators are also flawed people.
14. Sowell, *A Conflict*, 21. (Emphasis in the original.)
15. Patterson, "Niebuhr," 8–9.
16. For a discussion of Christian realism as it could be applied to the modern international economic order, see John Lunn, "Christian Realism and the International Economy,"

in *Christianity and Power Politics Today: Christian Realism and Contemporary Political Dilemmas*, ed. Eric Patterson (New York: Palgrave Macmillan, forthcoming).

17. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; repr., Indianapolis: Liberty Classics, 1976). The first two chapters focus on the first proposition and the third chapter, the second proposition.

18. Douglass C. North and Robert Paul Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973). Land transportation has always been much more costly than water transportation and remains roughly seven times more costly per mile.

19. Geoffrey Colvin, "The Capitalist Century," *FORTUNE,* March 6, 2000.

20. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), 6–8, argues that a measure of civilization is that the average citizen requires less knowledge and not more. This book provides an excellent discussion of the importance of knowledge, types of knowledge, and the use of knowledge in decision-making.

21. See Henry Petroski, *The Pencil: A History of Design and Circumstance* (New York: Knopf, 2004), 343–45. For a look at T-shirts, see Pietra Rivoli, *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade* (Hoboken, N.J.: John Wiley & Sons, 2005). For a description of the changes brought about by container shipping, see Marc Levinson, *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger* (Princeton: Princeton University Press, 2006).

22. Ronald Coase, "The Nature of the Firm," *Economica*, no. 4 (November 1937): 386–405.

23. R. Benabou and J. Tirole, "Willpower and Personal Rules," *Journal of Political Economy* 112 (August 2004): 848–86.

24. Peter Drucker, *The Practice of Management* (New York: Harper, 1954).

25. Henry Mintzberg, *Structure in Fives: Designing Effective Organizations* (Englewood Cliffs: Prentice-Hall, 1993), 2.

26. Drucker, *The Practice of Management*.

27. Jeffrey Pfeffer, "Seven Practices of Successful Organizations," *California Management* Review 40 (Winter 1998): 96–124. Jeffrey Pfeffer, *The Human Equation: Building Profits by Putting People First* (Boston: Harvard Business School Press, 1998).

28. For a history of Christian socialism in nineteenth-century England, see Charles E. Raven, *Christian Socialism, 1848–1854* (London: Macmillan, 1920).