

A Communitarian Model of Business: A Natural-Law Perspective

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This article compares and contrasts a communitarian view of business with business models under the liberalist and socialist doctrines. Specifically, it attempts to define a communitarian view that is based on natural-law principles. The communitarian view represents the proper balance and order between the claims of liberal and socialist views, and provides assistance to private initiative, while at the same time correcting its abuses and respecting its rights. The theoretical framework developed in this article utilizes a metaethical approach in specifying the underlying philosophical assumptions about rationality, primary purpose, basic unit, supreme value, market characteristics, dynamics of market regulatory mechanism, and juridical order. Today, there is need for a new humanism based on an integral view of the human person. Natural-law communitarianism recaptures the metaphysical certitude of the human person and thereby provides a philosophy of authentic human development. By its very nature, it defines the business organization that incorporates its social purposes.

Motivations and Methodology

There are two motivations for this article. First, there has been little work done in applying communitarian ideas in developing a business philosophy that integrates its social purpose. A growing number of studies have strongly supported the link between corporate social responsibility and financial performance (see, e.g., Margolis and Walsh, 2001; Murphy, 2002; Orlitzky, 2001; and Simpson and Kohers, 2002). However, there has been little work done on

developing a theoretical and normative foundation for corporate moral responsibility that includes the issue of corporate social responsibility. There is also a growing recognition that good ethics can have a positive economic impact on the performance of firms. For example, Joyner and Payne (2002) identify the presence and implementation of values, business ethics, and corporate social responsibility actions and found both a direct and indirect link to financial performance. Noting that the stakeholder theory does not offer a normative corporate responsibility concept, Gonzales (2002) defines a postconventional corporate moral responsibility that must be understood in relation to an economic, legal, and social environment. Gerde (2001) represents one of the first studies to examine the normative underpinnings of an organization's design features and its effectiveness for corporate social performance. This study is built around the concept of the "just" organization that provides normative organization design principles for establishing design dimensions with which to examine corporate social performance. Our current study also develops the concept of social responsibility using a classical definition of justice. It differs from previous studies in that it attempts to develop a normative theory grounded in a natural-law philosophy.

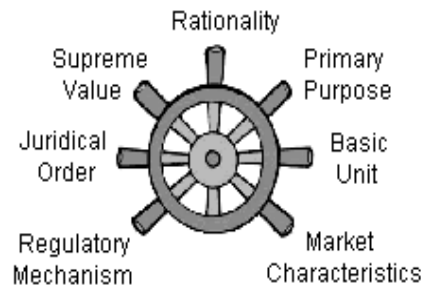
Second, Amitai Etzioni and the authors of the Responsive Communitarian Platform (*The Communitarian Network*, 1991), while stressing the importance of communal integrity, declare that communal values must be judged by *external and overriding criteria* based on shared human experience. Budziszewski (1999, p. 77) points out that such communitarianism has not taken its premises to its logical conclusion in that it needs to declare the external and overriding criteria that its qualified defense of communities requires. Fears (2000) remarks that the best of the Roman emperors (Trajan, Hadrian, and Marcus Aurelius) understood that no society can survive without a set of shared political, cultural, and religious values and that the natural law was the foundation of such a set of shared values. This article, therefore, introduces and attempts to define a communitarianism that is grounded in natural-law principles that provides the external and overriding criteria. The second motivation is therefore to advance the communitarian-liberal debate.

The methodological approach taken is a metaethical one that uses general and applied ethics in systematizing, deepening, and reviving our beliefs about how business ought to be conducted by examining the anthropology of these beliefs. Metaethics examines the nature and grounds of systems of belief and studies the concepts, method of justification, and ontological assumptions (Audi, 1995, p. 274). It proceeds from both an epistemological and a meta-

physical perspective. It is epistemological (focuses on questions about the character of ethical knowledge) in the sense that some concepts under each major philosophical system convey different meanings. For example, the concept of equality is defined as a distribution problem to be solved by the state (collectivist-socialist view). Under the individualist-liberalist view, it means equality before the law and equal protection of freedom of the person and of property; under the natural-law communitarian view, it is the participation of all with equal rights in the direct control of the functioning of the legal system in the service of the economic, social, spiritual, and cultural common good. Consider, also, the concept of freedom, which under radical liberalism is defined as absence of encroachment by individual or society (individual absolutism) and therefore puts the individual before the common good; under the collectivist-social concept, freedom is given its significance by the collective end that defines the limits of freedom for the person (the common good is made the only good). Under a natural-law communitarian view, freedom means self-determination based on individual responsibility in the performance of obligations grounded in the existential ends. The epistemological approach is, therefore, comparative. The methodology also adopts a metaphysical (focuses on questions about the existence and character of ethical properties) perspective by incorporating a natural-law view of human nature.¹

The theoretical framework for this article was developed by de Torre (1984, chap. 2) who critiques both liberalism and socialism as stemming from a philosophy that has lost touch with reality and argues for some balance between these two philosophical paradigms. De Torre (1984), however, did not specify the nature of this balance. This article attempts to address this deficiency. Figure 1 shows the essential interdependent features that form the philosophical framework of the business model. These fundamental thematic features in fact characterize natural-law principles, that is, principles that correspond with human nature. For example, natural-law philosophy expounds that the human person is a social animal (principle of solidarity and the rationality assumption); identifies the primary purpose and supreme value with the existential ends; argues that the basic unit of a society is the family that is one of two natural societies (the state being the other); illustrates that competition is an essential feature of an economy organized on the principle subsidiarity reflecting the desire for gain, which is one of the basic impulses of human nature (market characteristics and dynamics of market regulatory mechanism); and, finally, identifies the juridical order (social justice)—an order based on rights and duties—as the metaphysical roots of society.

Figure 1
Philosophical Framework



Natural-Law Communitarianism

With the failure of socialism in the latter half of the last century, which brought to an end the liberal-socialist debate, trade and business policies emphasized a more liberal type of system. However, this latter system has proved inadequate to cope with the social stresses and strains, particularly in an advanced economy. It was mistaken in thinking that there are natural-economic laws which, if left alone, will automatically bring about the best results for all concerned. For example, we continue to witness the moral decadence of the last two decades stemming from mergers and acquisitions; savings and loan scandals; environmental pollution; and issues in corporate governance, corporate social responsibility, and insider trading. Liberalism has also failed mainly because it could not deal with the human persons who demanded respect for their dignity and enough security to make their freedom worth having. Recent contemporary political philosophy has now focused on the communitarian-liberal debate.²

Communitarianism, whose ideas can be traced back to the insights of Hegel and Aristotle, argues that the collective can have rights that are independent of and even opposed to the rights of the individual and contends that the individual develops and can flourish only within the context of a community. The first wave of the communitarian movement was developed as a critical reaction to John Rawls' work *A Theory of Justice* (1971), which exerted a considerable influence on social and political thought. The communitarian movement seems to have been primarily motivated by deficiencies and negative consequences of the liberalist policies, for example, the negative effects of an overly individualistic concept of self, alienation from the political process, unbridled greed,

loneliness, urban crime, high divorce rates, and so forth (see, e.g., *The Communitarian Network*, 1991). Political theorists Alasdair MacIntyre (1984), Michael Sandel (1981), and Charles Taylor (1985) are strong proponents of this first-wave communitarian view. The second wave of the communitarian movement focused on sociopolitical issues emphasizing social responsibility and was initiated in the 1990s by Amitai Etzioni (1993) and William Galston (1991). For a brief overview of communitarianism, see Werhane and Freeman (1998, pp. 126–28).

The communitarian perspective recognizes (1) both individual human dignity and the social dimension of human existence, (2) that the preservation of individual liberty depends on the active maintenance of the institutions of civil society, and (3) that the communities and polities have duties to be responsive to their members and to foster participation and deliberation in social and political life (*The Communitarian Network*, 1991). Under communitarianism,³ there can be no question of eliminating all government influence from business affairs because the state is responsible for the welfare of its people whose economic lives must be taken into consideration. Communitarianism, however, does not want any more government interference than what is strictly necessary. It leaves the way open for private initiative but is ready to come to its assistance when private initiative fails. It not only protects but positively promotes all enterprises undertaken for the common good. It carefully respects the rights of the individual and of the family, does not try to usurp their duties, and helps them by offering opportunities. It also does not hesitate to correct abuses, by legislation if necessary, when it becomes apparent that private influences cannot cope with them. For a more comprehensive view of communitarianism, see Etzioni (1995, 1993) and Glendon (1991).

Natural-law communitarianism adopts much of the political and accountable communitarian views of Etzioni and others: (1) the basic communitarian quest for balances among individuals and groups, rights, and responsibilities; (2) the recognition of individual human dignity and the human person as a social-political animal; and (3) in addition, both deal with social justice. However, it differs from political communitarianism that asserts that the ultimate foundation of morality may be commitments of individual conscience (*The Communitarian Network*, 1991) in that natural-law communitarianism is rooted in the concept of freedom and in a person's existential end (self-preservation, social fellowship, self-perfection). Natural law can be defined as the functioning of a person's nature in accordance with its own full reality—therefore, that which must mean the fulfillment of the person's life and, ultimately, happiness (Messner, 1965, p. 42). Natural law is therefore the law of a

person's nature striving in its fundamental happiness instinct toward essential self-fulfillment (*eudaemonological*). Perhaps the most classic work on natural law in the last century is that of Finnis (1999). Messner (1965) gives an excellent application of traditional natural-law principles to social organizations, while McLean (2000), Rhonheimer (2000), and Rommen (1998), provide a comprehensive and in-depth exposition of natural law. Neither the individualist or the collectivist patterns of values, nor the liberalist or socialist ideologies founded upon them, have ever in practice been or can ever be fully actualized because human nature does not allow it (Messner, 1965). Significant modifications in theory and in practice have resulted from this observation.

The Philosophical Models

While most of the discussion on the communitarian philosophy has centered around sociopolitical issues, there has been relatively little of the literature either devoted to or applied in the context of business and socioeconomic issues. Today, we are witnessing a philosophical shift in the conduct of business, and there is a need for the reexamination of fundamental assumptions. The natural-law communitarian model of business is more in line with the reality of the human person as a social being and better emphasizes the two major principles of the world business community to improve economic and social conditions: (1) respect for human dignity and (2) living and working together for the common good. These principles were captured by the Caux Round Table that was founded in 1986 and consists of business leaders from Europe, Japan, and the United States (Tarantino, 1996, p. 57). In fact, natural law is the first and most authentic expression of human dignity (see, e.g., George, 1995). With respect to philosophical doctrines, business can be categorized under the liberalist business model (LBM), the communitarian business model (CBM), and the socialist business model (SBM).⁴ Table 1 compares and contrasts seven underlying characteristic features of all three models:

Table 1—Philosophical Doctrines of Business Models

Characteristics	LBM	CBM	SBM
<i>Rationality Assumption</i>	Individual Rationality	Collective Rationality	Collectivism
<i>Primary Purpose</i>	Profits	Happiness/Human Welfare	State Welfare
<i>Basic Unit</i>	Individual	Employees and their Families	State
<i>Market Characteristics</i>	Competition	Coopetition	Cooperation
<i>Dynamics of Market Regulatory Mechanism</i>	“Invisible Hand” (unregulated free market)	Principles of Solidarity and Subsidiarity	State Regulation
<i>Juridical Order</i>	Rights	Social Justice: Order of Rights and Duties based on Justice	Duties
<i>Supreme Value</i>	Freedom	Common Good	Equality

Of course, the SBM has been empirically shown to fail but is included to demonstrate that the CBM is actually a balance between LBM and SBM and avoids the errors of both—the rat race of liberalism and the class struggle of socialism. Each of the characteristics of these models is discussed below.

Individualist or liberalist ideologies have been propounded over the last two to three centuries (Locke, Hume, Rousseau, Bentham, Spencer, Mill). Here, the basic unit of society is the individual (individualism) who is a complete, atomistic entity with absolute autonomy and freedom (liberalism). Such ideologies defend and value the individual and his or her liberty, which highlights one of their strengths. These early ideologies ignore the social nature of the human person; moderate liberals, however, tend to reemphasize the social nature of the human person. Precisely because of this individualistic aspect, one of the main consequences or dangers of liberalism is the potential or total disregard of social justice, solidarity, and the common good. This has prompted some of its thinkers to recapture the value and significance of these concepts within the liberal tradition (see, e.g., Novak, 1989). De Torre (1990) points out another possible danger in that an (extreme) economic liberalism may absolutize the laws of the market so as to practically rule out all government intervention.

The moral root or anchor of liberalism is reflected in an effective capitalism that creates wealth and eliminates poverty (the way to fight poverty is to create wealth). However, since the early 1800s, there arose a system of oppression,

injustice, and exploitation of people under liberalism. This led to the radical reformation or revolution of socialism led by social reformers such as Saint Simon, Cabet, Fourier, Owen, and Proudhon. However, socialism also provided a distorted view of the human person by absolutizing the social nature of the person. The main error of socialism is the suppression of human freedom, personal responsibility, and initiative with the consequence that the state monopolizes all the means of production and distribution. It is important to note at the outset, that any criticism of the liberalist and socialist ideologies does not imply an indiscriminate and wholesale rejection of all their endeavors and achievements. Indeed, there was a genuine and justified reaction against obsolete systems and institutions in social, economic, and political life—absolutism, the police state, mercantilist regimentation—under the liberalist movement. The socialist movement should be understood as a reaction against the failure to carry out vital social functions, which was a consequence of the individualistic forces.

Rationality Assumption

Under the SBM notion of rationality—*collectivism*—the individual person renounces his or her individuality and integrates himself or herself fully into the social process and becomes the *collective person*. This extreme form of rationality is directed not to the benefit of the individual business or community (which are in fact swallowed up by society), but to the totalitarian state. The concept of individual versus collective rationality can be illustrated using the classic case of the prisoners' dilemma known as *the tragedy of the commons*. The commons refer to a pasture of land that is a public-good resource used for feeding cattle belonging to different cattle herders. Each herder wants to maximize the size of his or her herd. If it is (individually) rational for one cattle herder to advance his or her interest by allowing the cattle to use as much of the common pasture as possible, then it is rational for all herders to do so. Of course, if every herder does so, the commons would be overgrazed and everyone would suffer. However, if every owner were to behave cooperatively, then all would benefit and be better off than if they were to pursue maximizing his or her individual piece of the pie.

The above paradox, which game theorists refer to as the *social trap*, is a situation where individual rationality may lead to short-term gains, but, in the long run, the consequences can be disastrous for all. Collective rationality leads to a more favorable outcome for each individual owner. We witness many real-world examples of the tragedy of the commons—overfishing; pollution; accessing common underground petroleum deposits; price and trade wars;

countries' sovereignty; and many problems resulting from untradable, insecure, or unassigned property rights. Arjoon (1998) also identifies the distinction between the growing skepticism of narrowly defined models of self-interested economic man (rational economic man) and collective rationality, which is a more psychologically informed concept stressing peoples' capacity for moral commitments (socioeconomic person). Ambrosio and Toth (1998) also distinguish between rationality in the economic sense (rational maximizers) and in the natural-law sense (value rationality). In the latter case, rationality concerns both the choice of good ends and the means to pursue those ends. The purpose of value rationality is to determine what is good or bad, right or wrong. Economic rationality consists of a utilitarian calculus of the greatest good for the greatest number, a cost-benefit analysis based on narrowly defined self-interest and an impoverished view of human nature; it discounts the fact that most people respect the moral claims of others.

Throsby (2001) distinguishes between the economic impulse, which corresponds to individual rationality or behavior, and the cultural or social impulse, which corresponds to collective rationality. The economic impulse reflects individual goals and represents self-interested individual producers seeking to maximize their profits. In the standard neoclassical model of the economy, given the initial distribution of income, markets exist to enable mutually beneficial exchange to occur, and, according to the theory of general equilibrium, such markets will lead, under certain assumptions, to the maximization of social welfare, defined only in terms of the individuals who comprise the economy. The socioeconomic person, on the other hand, reflects the collective rationality and derives from the nature of society and culture (collective desires of a group).

Primary Purpose

Classical-business economists understand that the economic process is bound up in the genesis of wealth. They define wealth as "all useful and agreeable things that possess exchangeable value" (Mill, 1848). Neoliberal models consider profits and the law of the market as its only parameters, to the detriment of the dignity of and the respect due to individuals and peoples. The serious omission in contemporary business and economic theory is the human person. When one inquires into the purpose of a business, the fundamental question concerning the meaning of human life (What is the human person for?) must be answered, because it is the human person who works in a corporation that makes it a moral entity. The root error of both liberalism and socialism is that their driving force is fundamentally materialistic, and, consequently,

the spiritual realm is neglected by or divorced from the economic or materialistic. Both philosophical systems share the underlying assumption that reduces the human person to the *economic person* and therefore fail to recognize the person's full nature and dignity.

Watson (1991) shares many insights and experiences from America's CEOs, which reveal that they are not in agreement with the utilitarian concept of the shareholder-wealth-maximization model. Profits are in fact a means or secondary goal of a business (see also Arjoon, 2001⁵ and Pfeffer, 1998). Argandoña (1994) also asserts that profit cannot be the singular goal of a company but is a measure of corporate efficiency. However, with the fixation, misplaced emphasis, and obsession on the bottom line, management is forced to engage in *short-termism*, responding to the shortsightedness and immediate satisfaction of shareholders' financial appetite. Many businesses compromise or sacrifice their long-term survival and greater contribution to the common good by seeking out short-term benefits as *modus operandi*. It is analogous to killing the goose that lays golden eggs.

Recently, many firms have, at least in theory, adopted a stakeholder vision of organizational purpose. This model is based on a liberal notion of rights in which different stakeholders (suppliers, customers, employees, and so forth) have a stake or claim on the business. In practice, there has been difficulty in resolving the conflict of rights and balancing the interests of the various stakeholders. The CBM provides a solution by identifying a hierarchy of values. Watson (1991, p. xv) expressed this point when he said that "those persons and organizations that aspire to serve worthwhile purposes are ultimately the most profitable and that the ordering of aspirations to embrace people, products, and profits, in that order, are the most competitive and thus the most successful." Tim Crull, of the Carnation Company, also reflected this important truth when he mentions, "the company is not run only for its stockholders but for its customers and for its employees. It's really a three-legged stool. And if all three aren't equally protected and considered, it's not going to work" (Watson, 1991, p. 17).

So, instead of focusing on profit, the CBM would advance the argument that it is better to focus on what drives profit, that is, the employees. Argandoña (1994) also advocates this point in that the goal of a company ought not to be profit alone but to satisfy the needs and contribute to the development of the people who form part of the company through the efficient production and distribution of useful goods and services. Under the CBM, it is neither the customer nor the shareholder that is first, but it is the welfare of the employees and their families. Simply put, if employees are happy, they will be productive

and work harder and smarter. In some sense, many firms recognize this when they pay lip service in asserting that employees are their most important asset. Some writers have also argued this from a risk perspective: It is the employees that are the ones most at risk because shareholders can spread their risk through diversification (see, e.g., Buchholz and Rosenthal, 1998). As Donald Lennox, of Navistar, graphically puts it, “and while the stockholders might have their money in the company, the employees have their lives in it. And it is these employees and their motivated efforts which are ultimately needed if success is ever to be achieved” (Watson, 1991, p. 18). Providing an environment for employees to achieve their own goals as well as that of the firm, results in the ultimate sustainable competitive advantage because such a practice is unique and unlimited in scope and so difficult to imitate or copy. In such an ethically charged environment, people would not want to leave and so the CBM would address one of the main human resource problems—that of retaining the right employees. We can conclude here that the principal aim of business does not consist merely in the increased volume of goods produced, any more than it consists of mere profit, but it is directed to the service of people in their totality, taking into account their material needs and the requirements of their intellectual, moral, spiritual, and religious lives.

Under the CBM, the concept of happiness⁶ is a state of being, not a state of having (e.g., having wealth, health, power, prestige, honor, recognition, approval, and so forth). Even the Greek philosopher Epicurus (341–270 B.C.), to whose roots utilitarianism could be traced back, came to admit that although they may not be the most intense, the highest and most lasting pleasures are spiritual and not physical ones, and as such, belong to the sphere of the spiritual order. Charles Watson summarizes these ideas in the following phrases,

A certain amount of gratification can be gotten from having possession and from consuming. But these pursuits do not produce the most satisfying happiness people are capable of reaching. If relied upon exclusively they can unnecessarily constrict one’s human possibilities.... He may possess these things, but that is not the same as enjoying them.... All you gain is the knowledge you are rich.... Being miserly and hoarding material objects or pursuing wealth just to satisfy the self is debasing to what one could be as a human being. The constant searching and calculating how best to serve one’s self and to get what one wants in the form of wealth and possessions keeps that person from seeing what else is possible, from doing interesting, exciting, worthwhile things, and from truly living. (Watson, 1991, pp. 36–37)

Basic Unit

One of the characteristics of the CBM is its emphasis on family policies. Why focus on families? Communitarians recognize that the health of any business or society can be measured by the health of its families. The family is the most fundamental unit of society and is the seedbed of human enrichment. It is the first school of social virtues that are the animating principles of the existence and development of business and society themselves. It is from the family that future business leaders are nurtured and engendered with the necessary skills and characteristics to participate and to contribute actively in the life of business and society. It is in the family environment that one develops obedience, a concern for others, a sense of responsibility, understanding, mutual help, and many other virtues. Families also represent the potential flow of future wealth for business and society, so it makes economic sense to invest in families, because it is critical for long-term economic survival and performance. Any business or society that does not consider the family in its priorities and fails to see other priorities in its natural and subservient relationship to it is condemning itself to its own demise.

The CBM therefore, takes into account the employee within the context of his or her family as the basic unit. The LBM considers the former only, and under the SBM both the individual employees and their families are swallowed up into the state.⁷ The CBM recognizes that the basic cell of a society is the family, and in order to develop strong businesses and strong societies, emphasis must be placed on developing the family. The CBM fosters the conviction that the good of the family is an indispensable and essential value for business and therefore focuses on family policies that contribute to the life and development of the family. It therefore advocates profamily measures such as a family wage, work-life programs (such as flexible work hours, work from home, bring your kids to work, day-care center, and so forth), educational subsidies, and maternity and related benefits. Unless regulated by law, such measures should be determined by each individual firm, given its own circumstances and resources; for example, its competitive position. The CBM takes a longer-term view of business in placing emphasis on supporting and developing the family. In this way, the firm can develop trust and loyalty from its employees because it makes the concerns of its employees its own concerns.

Market Characteristics

The LBM and SBM market characteristics of competition and cooperation respectively represent two extreme ends of the spectrum of market characteristics. Competition can be characterized by what game theorists call *games of pure conflict* in which economic agents or players are strictly opposed to each other, and the gains of one are balanced by the losses of the other. At the other extreme, cooperation, all players gain or lose together as all have a common interest. In practice, purely competitive situations do not always bring about the social benefits of higher output, lower prices, and optimum efficiency. However, there is no way to eliminate all competition and maintain free enterprise. Competition keeps the economy flexible, dynamic, progressive, resourceful, innovative, and efficient. It has by extension a social function of bringing about the best possible fulfillment of the social order or end of the economy: It is an ordering principle of the social economy (Messner, 1965). Also, it is an indispensable means of arriving at the just price or wage in the market. There can therefore be no question of abolishing competition; however, it should be supplemented with cooperation.

In practice, most competitive situations involve *coopetition* (see Table 1), which is a combination of competition and cooperation, in other words, cooperation among competitors. Game theorists refer to such situations as *nonzero sum games* because there are opportunities for mutual gains for all competitors. For example, much cooperation is already practiced by businesses: against price slashing, depletion of natural resources, false advertising, joint ventures, strategic alliances, and mergers. Usually, cooperation may be secured using legislation, or it may be voluntary; for example, in the case of self-regulation. Coopetition⁸ offers a theory of value, that is creating value by recognizing the interdependence between business and its various stakeholders in order to develop new markets and expand existing ones and capturing value through competition (Brandenburger and Nalebuff, 1996). Essentially, coopetition can be considered cooperation in a competitive environment, usually with the aim of achieving a win-win payoff. The main point here is that cooperation and competition are not mutually exclusive; there can be cooperation for the sake of legitimate competition. Economic cooperation means the free exchange of goods, which, in fact, is competition. Therefore, in this sense, economic cooperation can only take the form of competition (Messner, 1965). In fact, more cooperation is needed among companies competing for global markets, as we are witnessing today. Companies do not lose their freedom while voluntarily cooperating.

Arjoon (1999) points out that sustainable and meaningful cooperation can be achieved by the practice of the appropriate virtues, which would make the basis for successful cooperation possible. Solomon (1992) emphasizes that the role of virtues in business is to guide and to motivate behavior for the betterment of the community because our individuality is socially constituted and socially situated. Mintz (1996) also reinforces the point that virtues facilitate successful cooperation and enable the community to achieve its collective goals. Competition therefore does not replace but presumes an underlying assumption of mutual interest and cooperation. *The Encyclopedia of the New Economy* (2002) points out that cooperation helps markets grow faster and helps focus scarce resources. Cooperation often involves companies agreeing not to compete in a particular market while they compete in others, for example, the alliance of Sun, IBM, Apple, and Netscape in supporting the open programming language Java to increase market power. Another example is that of American Airlines in opening its Sabre reservation system to competing carriers.

Dynamics of Market Regulatory Mechanism

In practice, the so-called invisible hand or unregulated free markets under the LBM tend toward monopolistic structures, and, consequently, there is need for antitrust laws to limit concentration of economic power. We can also witness other consequences of unregulated markets; for example, the issue of wages. Wages and other remunerations should not be solely determined by the state of the market; it must also be determined by the laws of justice and equity. The payment of a sufficient wage to employees for a dignified living for themselves and their families generally constitutes a concrete means of verifying the justice of the whole socioeconomic system, because remuneration for work is a practical means whereby the vast majority of people can have access to those goods that are intended for common use (Pope John Paul II, 1981, p. 46). In addition to the state of the market, wages must be related to the contribution of the employees to the firm, the needs of the employees and their families, and the competitive positions of firms. Many countries have, in fact, adopted minimum-wage requirements, recognizing that the market cannot and should not be the final arbiter of values. On the other hand, under the SBM, state regulations or regimentation stifle economic initiative, freedom, and innovation.

Under the CBM, the principles of solidarity and subsidiarity regulate the dynamics of the market and are ways to organize a business or organization that manifest the dignity of the human person. By virtue of the first, each and every person is obliged to contribute to the common good of society at all lev-

els; by virtue of the second, the state should never substitute itself for the initiative and responsibilities of businesses at the level at which they can function. The principle of solidarity is manifested by the distribution of goods and remuneration for work, and also presupposes the effort for a more just social order where tensions are better able to be reduced and conflicts more readily settled by negotiation. This principle recognizes the dynamic interdependence among firms, industries, and other communities. The principle of subsidiarity can be simply stated as what can be done by the smaller body should not be done by the larger one, as this would stomp private initiative. In other words, a community of a higher order should not interfere in the internal life of a community of a lower order, thereby depriving the latter of its functions, but rather should support it in the case of need and help to coordinate its activities. Cases for privatization can be defended on the principle of subsidiarity.

The principle of solidarity will lead firms to promote the good of all even if by so doing the individual advantage of some may be affected; the principle of subsidiarity will lead firms to respect and protect the rights of employees. The principle of solidarity stresses the common good, duties, cooperation, and equality, while the principle of subsidiarity stresses the individual person, rights, privacy, and freedom. Both principles are however, intrinsically interrelated, and the balance between both sets the limits for excessive intervention (both within the firm and by the state). The SBM overstresses solidarity with the consequence of stifling personal freedom and initiative. The LBM overstresses subsidiarity or self-help and results in selfishness. The primacy of the common good demands that both principles of subsidiarity and solidarity be balanced and kept inseparable. In general, the current market philosophy of the Western world has worked well because of regulations (including self-regulations). However, over the last two decades, we have witnessed a deteriorating trend in ethical practices. Also, many firms adopt corporate governance structures that tend to emphasize a socialist type of philosophy that overstresses solidarity and therefore stumps individual initiative and inhibits creativity. A management practice that is based on the principle of solidarity encourages employees to work more productively and become more involved and committed, because they have more control over their work. Subsidiarity also has a great impact on performance, because it requires eliminating layers of managerial bureaucracy whose primary responsibility is simply being a watchdog in overseeing the work efforts of employees. Self-managed teams are examples of applying the principle of subsidiarity to basic elements of organizational design.

It is worthwhile to make a distinction between the notion of empowerment and the principle of subsidiarity. Empowerment is the idea that management passes the power to employees at a lower organizational level—a power that can be taken back at will. Ownership, control, and responsibility remain at the top. The principle of subsidiarity holds that decisions are best made as near as possible to the persons or moral entity they will affect and encompasses the idea of devolving powers to the lowest appropriate levels. It is based on the notion of justice; specifically, it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry, and so it is better to leave power where it belongs and where it can be best exercised. Central to the concept of subsidiarity is the notion of trust—willingly surrendering power rather than delegating it and structuring organizations to institutionalize and reinforce trust. A culture of subsidiarity is therefore not to manage but rather to enable, facilitate, interpret, create meaning, and develop through trust (West-Burnham, 1997).

Juridical Order

Rights and duties are stressed by the LBM and SBM respectively. Rights and duties are in fact correlative terms; in other words, a right is the reverse side of a duty and vice versa, and both are limited by each other. For example, because a corporation has rights, other firms have the duty to allow that corporation whatever rights are entitled to it. Take for instance, an approach to the problem of pollution—the sale of pollution rights—that is a license that gives the firm a right to pollute up to some specific limit during a particular period of time. Other firms have the duty to respect those rights, which the firm may freely trade in an organized market. On the other hand, the CBM focuses on social justice, which incorporates rights and duties based on justice. In essence, justice embodies the concept that each be given what is due to him or her. For example, under a pay-for-performance scheme, a manager who has consistently surpassed his or her target objectives has a right to be paid extra compensation, and the firm has a duty to provide the compensation. Perhaps the most controversial business issue to fall under the juridical order is that of corporate social responsibility. The CBM would explicitly recognize that firms do have a corporate social responsibility to show care and concern for others, which they argue is not an option, but an obligation based on social justice. In other words, it is what the virtuous corporation would do, and communitarians would argue that only extensive involvement in public affairs by the virtuous corporation can remedy many of the problems that business and society face.

Today, justice has become something impersonal and cold, rigid and harsh—chiefly a legal affair. Its classical definition⁹ is “to give to each what is due to him or her.” From its definition, justice is directed from oneself to others and consists in giving. Deprived of its personal content, its essential orientation is now reversed. It is not uncommon to think of justice as something society demands of us, or holds against us, expressed in terms of laws, which limit individual freedom and punish infractions. This kind of justice can be referred to as *strict justice* as opposed to the concept of *full justice*. In the latter concept, justice is understood to be generous and spontaneous, supple and adaptable to individual circumstances, oriented to others, and able to be extended beyond the strict precept of what is required by law. If practiced in this manner, it eventually leads firms to assume public functions that go beyond their legitimate concern for their own particular interests and therefore will be performed with a view to the common good. The object and principal effect of this type of justice is to create mutual trust and friendship among all stakeholders (see Pinckaers, 1998, for a more detailed discussion on this concept of justice). Corporations practice strict justice when it gives to society what is due to society; that is, corporations are required to efficiently produce goods and services, pay dividends to shareholders, develop new products and technologies for its survival, provide meaningful life experience for its employees, and so forth.

Corporations practice full justice when full justice transcends the demands of strict justice without violating those demands; in other words, the former presupposes the latter. For example, payment of a just wage adheres to the concept of strict justice. Now, suppose the firm is in a position to pay extra for a particular period, this does not violate strict justice (unless it is at the expense of others, say, the firm’s own survival) but brings justice to its fullness. Strict justice then can be measured and can be commanded, whereas full justice is immeasurable and must be given freely. Full justice can be described as corporate social responsibility in that it has greater latitude in conferring benefits. Firms should not be coerced into conferring benefits over and above what is required strictly by justice, but its freedom should be respected in conferring benefits to others in the manner and in the amount in which it so desires. However, without the practice of corporate social responsibility, which is aimed at promoting the common good, we continue to witness systems of oppression of the weakest members of society. Corporate social responsibility should therefore not be considered an option for firms but a requirement based on the concept of full justice. Therefore, firms should be strongly encouraged to practice corporate social responsibility and wherever possible help society

solve some of its most pressing social problems. Richardson Heckert, of Du Pont, expresses this view thus, “when a corporation’s goals are very much out of line with society’s goals, they are in trouble ... the fact is you can’t be a large, successful corporation and be working against the public will; not for long” (Watson, 1991, p. 21).

With strict justice alone, firms will never be in a position to solve any of the great problems of the world and in many cases we should not be surprised if people are hurt. We can witness this today in the case of HIV-drugs¹⁰ where some pharmaceutical companies are maintaining high prices on the products to recover research and development costs in the midst of widespread human suffering. Brazil has already broken patent laws to reproduce their own generic drugs to combat HIV-AIDS. Some firms may leave aside strict justice (for example, manufacturing substandard or unsafe products), while they give a little to some good cause, and call it corporate social responsibility without realizing that they are in fact guilty of a grave injustice. The practice of corporate social responsibility first requires that the firm begin with strict justice. Corporate social responsibility is like a generous overflow of strict justice.

Supreme Value

MacIntyre (2000) observes that in dominant cultures of advanced modernity, as in the LBM, the exercise of individual choice is often identified in the contemporary world with the exercise of liberty or freedom. Such choice is prior to and determines principles (rather than be governed by principles), and so, freedom is threatened when it is suggested that principles that ought to govern our actions are not principles that are up to us to choose but rather to discover.¹¹ Jenkins (2000) notes that the spirit of liberalism is to hold a strong view of limited individual rights that all must respect while allowing for diversity in views about morality, religion, and so forth. Liberalism can tolerate great diversity by leaving decisions about the best way of living to the individual, while communal agreement is required on a set of basic rights. An attempt to formulate which of the diverse views can be appreciated and valued is not part of a liberal strategy (although this is left to the individual) but simply that diversity is to be accepted.¹² The CBM provides an approach that allows a common vision in that this approach strives for a unified view based on the foundation of universal objective norms.

Under the SBM, the supreme value of equality demands that each be given the same, and so, for example, there would be no incentive for pay for performance. Employees who distinguish themselves through performance would not be rewarded differently for their effort. Therefore, there would be no incen-

tive to innovate, to improve effectiveness or efficiency. Recall, also, that the concept of justice demands that each is given what is his or her due, but that does not necessarily mean giving each person the same. A utopian idea of equality in fact is the source of the worst injustice. A virtuous manager will behave or treat each employee differently—with an *unequal justice*—because each one’s needs are different. The virtuous manager will then adapt himself or herself to the specific circumstances: He or she will give joy to a person who is sad, knowledge or training to those who lack it, affection to one who feels that he or she is alone, compassion to those who suffer loss, patience to those who are experiencing anxiety, and so forth.

The common good that is the supreme value of the CBM, promotes the welfare of both the firm and employees, both collectively and distributively. It is important to note that notions of the common good are also defined within the context of liberalism and socialism. The SBM stresses the collective aspect in which the individual good is absorbed into the common good. The LBM emphasizes the distributive aspect by viewing the common good simply as a mere sum of the individual goods. The CBM concept of the common good balances these extreme notions and recognizes the interdependencies of both employees and the firm. For example, if management is only interested in the bottom line, and workers only in wages, although each benefit the other, they do not have a common good. In many instances, these self-interested positions often strain management-employee relationships. The fundamental reason for this antagonism lies in the error of considering the employees as an instrument for the production of goods and services. The relationship between management and employees should, however, be one of cooperation because neither one can exist without the other. The common good can therefore be defined as participation by both management and employees in a joint effort to achieve the output. To most efficiently and effectively actualize the common good, management must be genuinely interested in the welfare of their employees, and the employees must have at heart the success of the business; the two interests must be merged into one common enterprise. In this sense, the common good provides a conceptual framework for the alignment of personal and corporate values, which are often in conflict under the LBM.

From its very etymology, the CBM emphasizes the common good as its supreme value. The common good is perhaps easier to recognize in practice than it is to define. One of the justices of the U.S. Supreme Court says that the definition of the common good is not unlike that of pornography—“you know it when you see it” (Mahon and McGowan, 1991); for example, firms that have elderly care assistance, flexible work hours, job sharing, or that allow

employees to work from home and contribute to the common good. Rather than a specific good, the common good should be understood as the set of conditions that would allow employees to develop themselves (materially, culturally, spiritually, and so forth) to the fullest. The common good is achieved when employees contribute to the firm in accordance with their abilities and with the awareness of the legitimate needs of others. The development and success of any business therefore comes about through the contribution made by all its employees (this characterizes the relationship between employees and the common good). Firms, therefore, have an obligation to provide the conditions in the work environment that would help employees develop; for example, training needs of employees (this characterizes the relationship between the common good as related to the employees). The CBM notion of the common good provides a basis for mediating the excesses of the LBM and SBM. If freedom is stressed, equality and the common good suffer; if equality is stressed, both the individual good and the common good suffer.

Conclusion

The CBM is not opposed to a capitalism that is characterized by a system of free enterprise, free production, and free competition; it is opposed to that of no regulation and no control (*the invisible hand*). However, the former system of capitalism must be always fused with ethical values and motivation; the spirit of solidarity and cooperation; the juridical order, that is, rights and duties based on justice in the market (*the visible hand*); and on the dignity of the human person. The CBM acknowledges and presupposes the primacy of people over profits. Ethics and profits, however, cannot be separated such that the former is the ends and the latter is the means. Ultimately, people are not looking for financial wealth as an end (although some do) but rather as a means toward their own fulfillment or happiness. Human fulfillment or happiness is defined here not as a passing feeling or emotion such as joy, gladness, cheerfulness, contentment, and so forth, but as a total satisfaction of all one's desires.

Notes

1. This is in contrast to other perspectives of human nature including the humanistic theories of the following schools of thought: naturalistic, rationalistic, scientific, dialectical materialism, psychoanalytical, behaviorist, biological-evolutionist, neopositivist, existentialist, and idealistic.

2. Perhaps the sentiment of a noted economist is somewhat prophetic. In 1942, Schumpeter argued that the creation of wealth under liberal capitalism would give rise to beliefs that would challenge its ethical basis (Coelho et al, 2003). He was, however, mistaken in that he thought that this would ultimately lead to its replacement by socialism, which has failed both in theory and in practice.
3. Within the communitarian philosophy, there are different schools of thought: narrative communitarianism, egalitarian communitarianism, and accountable/political communitarianism. The article addresses the last perspective.
4. This is not to deny, in practice, many other sociopolitical systems: cooperative individualism, communitarian socialism, liberal socialism, liberal communitarianism, and so forth.
5. This article develops a theory of business that is actually grounded in and derived from the philosophy of business as enunciated in this current article.
6. Socialists would agree with the liberal ideologies (Bentham's and Mill's utilitarianism, James' and Dewey's pragmatism) in identifying happiness with material pleasure, but both fail to make the link that the material welfare is only a necessary means for the real happiness that is only achieved above the material level. An inherent weakness of liberalism is the tendency to overlook the fact that society is the means for a person to attain his or her eternal fulfillment beyond this temporal life.
7. Under liberalism, the individual is placed above the family, and in socialism it is society that is placed above the family.
8. Sam Albert, a consultant, dubbed the term *coopetition* a cross between competition and cooperation (see *The Wall Street Journal*, May 18, 1991).
9. The Romans define justice as *ius suum cuique tribuere*, giving each person what is due to him, namely, what is his right (see De Torre, 1990, 64).
10. The author's intention here is not to simplify or to make a judgment in this case because the issue is fairly complex and involves short-term and long-term considerations and issues of legality versus morality. In short, it requires the practice of the virtue of prudence. A reviewer of this article commented that the issue of HIV drugs is very complicated. Without the ability to recover their R&D costs, the drug companies will have little or no incentive to develop the next generation of HIV or other drugs.
11. Senator Joseph Biden expressed the fear that natural law dictates morality to us, instead of leaving matters to individual choice. *The Washington Post*, September 8, 1991.
12. Claims to be the defender of liberty can end up losing freedom that ought to be balanced by truth, justice, and law.

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