

Durable Goods: A Covenantal Ethic of Management and Employees

Stewart W. Herman

Notre Dame, Indiana: University of Notre Dame Press,
1997 (248 pages)

Stewart Herman's recent effort to define and promote the creation of "durable goods" in business corporations has not gotten the attention that it deserves. His brief in behalf of fostering genuinely cooperative relationships between employees and management is not readily politicized. Nor will pundits find in it prescriptions readily reducible to sound bites. This is not the stuff that gets an author invited to share in the polarized and polarizing ravings favored by talk-show radio. Why is it, then, that critical and well-informed expositions of business ethics, particularly those seeking to work faithfully within one or another tradition of Christian ethics, are so blithely ignored?

Given the current wave of job-cutting and its accompanying patterns of corporate blood-letting, nothing could be more relevant, one would hope, than Herman's attempt to assess the history of American employee/management relations for some clues as to the prospects for a covenantal ethic in business. The very term, *covenant*, is resonant with the bedrock of this country's residual inheritance of Protestant Christian values. Its use suggests that working for a business is not, and ought not to be, reducible to the narrowly defined stipulations of a labor contract, however freely entered into. Covenant invokes a larger context and an expansive vision. It is about trust, mutuality, respect, and an overriding commitment to the common good. To raise that tired and tattered banner in the current business environment will surely invite skepticism from many different quarters—but skepticism usually is a prelude to vigorous argument. How, then, the deafening silence?

Herman's theological credentials are impeccable. He acknowledges himself to be a Lutheran and asserts that "an important task of Lutheran ethics is to make claims about precisely what it is God wants us to do within our roles" (x). His position is also informed by the broad stream of American public theology, the so-called "Christian realism" that Reinhold Niebuhr first formulated and vigorously, if not always persuasively, defended. Disciplined by the methodological refinements that Reinhold's brother, H. Richard Niebuhr, and his most influential student, James Gustafson, contributed to the formation of Christian social ethics, Herman seeks to assert and develop a Christian realist perspective in business ethics—a perspective that is equally wary of the overly optimistic "ethical managerialism" popularized by Peter Drucker and his disciples, as well as by the overly pessimistic pronouncements of "prophetic critics and skeptics"—for whom business managers, even when their intentions are noble, are simply unable to mount any effective resistance to the relentlessly predatory logic of capitalism. Those familiar with Reinhold Niebuhr's way of setting up his opponents will, of course, recognize Herman's attempt to navigate between the proverbial Scylla and Charybdis. The realism of his brief in behalf of covenantal cooperation, however,

depends on just how accurately he has mapped the treacherous currents, the submerged obstacles, and whatever sea monsters still lurk out there in the murky depths of corporate culture.

If you check Herman's footnotes, you will soon discover that I, like several others in the guild of Christian ethicists, am very sympathetic to his project. By all means, we need a covenantal business ethic, but I am not sure that Herman succeeds in fully developing one. His commendable understanding of organizational theory allows him to recognize the significance of the conflict between employees and managers, and so he seeks to enlist the resources of covenantal morality to negotiate that conflict more equitably. Bravo! But there is yet an aura of unreality about his analysis of the conflict, as if it were merely a struggle for power that could be eased by a more discerning and effective approach to human resource management. Strangely ignored in Herman's perspective is the role of investors and creditors, the owners of capital (however, the firm obtains it), whose impact, in my view, is at least as important as the interaction of employees and managers. Indeed, without mapping the ways access to capital shapes the terrain upon which these two interact, their struggles are virtually unintelligible and hardly resolvable.

Herman's emphasis on stakeholders, in short, masks the ways in which the exorbitant demands of stockholders make institutionalizing anything remotely resembling a covenantal relationship seem hopelessly utopian. It is striking how assiduously Herman avoids discussing how profitability, the exigencies of profit-maximization, and the moral imperative—however legitimate—of fiduciary responsibility actually call the tune to which both employees and managers must do their song and dance. Milton Friedman's memorable assertion that the purpose of business is to maximize profits is never explicitly addressed. Nor is the financial theory of the firm that is the cornerstone of all that is taken seriously in conventional MBA programs ever contested. To be sure, there are skirmishes, such as Herman's brief remarks on the "extrinsic value of cooperation" (179–80), where he recognizes, on the one hand, the positive impact that an increase in cooperation may sometimes have on the bottom line while, on the other hand, warning of the moral dangers involved in too close a link, as if increased profits were the divinely ordained fulfillment of covenantal promises. But what is a Christian realist in business likely to make of the following statement?

"According to one recent review of the literature, the efforts by management to delegate meaningful power and control to employees tend to yield some measurable economic gains (rarely losses), not spectacular returns. From a covenantal perspective, the lackluster economic performance of cooperation is not discouraging. To be sure, programs of cooperation have to be economically viable.... Here the academic studies are encouraging.... Programs in cooperation need only be profitable, not more profitable than coercion or compliance as alternative modes for coordinating work...." (180)

Maybe so. But however eager die-hard covenantalists may be to accept lukewarm returns on their investments, the vast majority of investors and managers are likely to remain unsatisfied unless Herman or some other Christian realist can vigorously and

convincingly refute our conventional assumptions about profit-maximization and the overriding priority of stockholders among stakeholders as expressed in the financial theory of the firm. The effort to navigate between the Scylla of managerial prerogative and the Charybdis of employee adversarialism is not likely to succeed unless the true dimensions of the elusive obstacles of capitalist finance are accurately mapped and accounted for.

Friedman may be wrong in asserting that the purpose of a business is to maximize profits—just as Drucker may be wrong in asserting that the purpose of a business is to create a customer. But if Herman is to differentiate his position from the “ethical managerialism,” which he rightly criticizes, he would do well to triangulate his analysis so that the conflicts between investors and managers, as well as those between top management and middle management, are just as visible as those between managers and employees. Such a triangulation need not be reductively Marxist and need not warrant the incorrigible pessimism of those “prophetic critics and skeptics” who regard capitalism as inherently evil, but it would allow us to recognize that managers (as well as employees) need to rely—beyond their own good intentions—on the common good embodied, monitored, and effectively enforced by a credible and effective scheme of government regulation. The search for a covenantal ethic, if it is to be Christianly realistic, may have to focus some of its attention, for example, on the Securities and Exchange Commission and on the other gatekeeping institutions that have failed the markets so miserably over the past decade or so.

Despite these criticisms, or perhaps precisely because of them, Herman is to be recognized and commended for his genuine contribution to the credibility of any proposal for a covenantal business ethic. His making explicit once more the underlying biblical principles often given short shrift in glib invocations of such an ethic, his penetrating interpretation of the morally ambivalent legacy of American labor-management relations, and his impressive development of organizational theory as a resource for Christian business ethics, all encourage the view that the concerns that I have raised here need not dissolve into a pretext for self-righteous but basically bankrupt, moral posturing.

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Social Justice in a Market Economy
Hermann Sautter and Rolf Schinke (Editors)
Frankfurt, Germany: Peter Lang, 2001 (194 pages)

From the beginning of the Industrial Revolution, one region of the world has been repeatedly put forward as the area for the next great expansion resulting in significant economic power: Latin America. Just as repeatedly, Latin America has disappointed those aspirations. The number of false dawns for individual countries and the wider region has itself been a topic of much research. The current volume attempts to present