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Seasoning business knowledge: challenging recent Catholic social thought

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Abstract

Purpose – This paper aims to indicate how practical wisdom in the western Christian tradition may be introduced into management development. Following recent documents of Catholic social thought, three roads to go are indicated especially concerning: management practice, management education, and the managerial reason.

Design/methodology/approach – This is an interdisciplinary paper summarizing economic, philosophical, and business literature.

Findings – In his recent social encyclical *Caritas in veritate* Pope Benedict XVI criticizes a dominating approach of economic thinking that neglects practical wisdom in management. The authors indicate three roads of seasoning management practice with practical wisdom: integrating charity in management theory and practice (by spelling out the economic relevance of reciprocity and gratuitousness for economic theory and for managerial decision making), enriching business school experience (by deepening elements of voluntary engagement and interdisciplinary education) and to enlarge the perspective of management decision making (by enlarging the way to conceive knowledge in management).

Originality/value – The interdisciplinary approach interprets certain elements of business education as expressions of the ethical concept of “gratuitousness”.

Keywords Behaviour, Christianity, Business studies, Business ethics

Paper type Viewpoint

Knowledge is never purely the work of the intellect. It can certainly be reduced to calculation and experiment, but if it aspires to be wisdom capable of directing man in the light of his first beginnings and his final ends, it must be “seasoned” with the “salt” of charity (*Caritas in veritate*, n. 30).

1. The challenge to operationalize the Christian ethical tradition for business education

More than any other event in history the industrialization and the formation of modern business transformed living conditions not only for small elites but also for a majority of poorly educated people. This process increased earned income not only for few entrepreneurs but millions of simple laborers and their families (Clark, 2008). The enormous economic surplus of industrialization remains the large driver of social and cultural modernization – until our days. However, this transformation also posed (and poses) enormous challenges for the cultural life of people. For example, as a consequence of industrialization specialized knowledge and rational analysis drives out traditional instruments of deliberation and decision-making: this reduction of practical wisdom becomes most obvious in an exemplary way in some business schools.



Does the “old” western ethical tradition still maintain any value at all in contemporary management practices? In the past, Churches and religious leaders seldom tackled that question in a radical way. They merely reaffirmed assertive claims of ethical orientation and justified policy recommendations by arguments from natural law or divine revelation. This question is especially related to the role of practical wisdom for responsible decision-making. Since Aristotle that notion has been a core element of the western ethical tradition. It profoundly shaped the ethics of the Renaissance and Humanism. However, in a modernized world its role is no longer that clear. Is practical wisdom to be substituted by rational decision theory and other components of business school’s analytic toolbox? Does practical wisdom play any role for successful management and should it therefore be integrated into business school education at all? If so, what is its core message?

Problems in business education obviously originate from a certain type of economic models. Economic theory used to play only a limited role in management development. The most influential scholars of emerging management science in the twentieth century have been trained lawyers (Peter Drucker), social scientists (Herbert Simon), sociologists and political scientists (James March), mechanical engineers (Henry Mintzberg); with that interdisciplinary caliber practical wisdom has, to a certain extent, always played a role in business education. In recent decades, however, certain elements of economic theory penetrated the realm of business and induced a crowding-out of other issues. For example, the influential concepts of “principal-agent-theory” (PA) (Jensen and Meckling, 1976; Eisenhardt, 1989) are grounded in neoclassical economics. The implementation of these concepts in management practice was not always methodically sound but resulted in a crude ontology lacking practical wisdom. PA derives its theoretical appeal from formal mathematical models that seems to indicate the “exact” compensation structure necessary to “correctly” incentivize stubborn managers. Theory building of that kind granted access to scientific journals so important for junior management scholars striving to build up a scientific reputation. But implicitly a concept of managers as re-active opportunists was introduced, which ignored the ethical consequences of “extrinsic” motivational structures on intrinsic motivation (Frey, 1994).

In recent years these theories have come under harsh critique. In his path-breaking essay “Bad theories are destroying good practices”, Sumantra Ghoshal criticized the role of principle-agent theories for management education (Ghoshal, 2005)[1]. Even years before the financial crisis, Ghoshal was very explicit about the cultural power of management school theory building in that respect. After the crises his words sound even more relevant if not prophetic:

MBA students are not alone in having learned, for decades, these theories of management. Thousands – indeed, hundreds of thousands – of executives, who attended management courses, have learned the same lessons . . . Even those who never attended a business school have learned to think in these ways because these theories have been in the air. Legitimizing some actions and behaviours of managers, delegitimizing others and generally shaping the intellectual and normative order within which all day-to-day decisions were made (Ghoshal, 2005, p. 75).

How exactly did business schools execute this influence? Ghoshal summarizes the effects as abstraction from moral aspects within a “scientific approach” of economics and management science:

By propagating ideological inspired amoral theories, business schools have actively freed their students from any sense of responsibility ... Since morality, or ethics, is inseparable from human intentionality, a precondition of making business studies a science has been the denial of any moral or ethical considerations in our theories and, therefore, in our prescriptions to management practice (Ghoshal, 2005, pp. 76-77).

In contrast to natural science, social sciences tend to be a self-fulfilling prophecy – as scholars adapt their behavior to the lessons learned. That is why – according to Ghoshal – bad theories are destroying good practice. Other prominent and long-standing observers of management education supported Ghoshal's passing remarks about the negative effects of business school education on pro-social behavior. For example Pfeffer (2006) who recollect several papers on this topic:

- The relationship between firm size and corporate criminal activity in *Fortune* 500 companies ($n = 184$) is higher for top management teams with a higher proportion of MBAs (Williams *et al.*, 2000).
- Business and economics students are less able to allocate a club good by voluntary contributions than nurses are (Cadsby and Maynes, 1998).
- Economics students were more likely to accept a bribe (to recommend a plumber to a student group) than non-economics students (Frank and Schulze, 2000).
- At a private Catholic university, only 33.7 percent of the business students reported that they had never observed another student cheat during a test or exam compared to a whopping 82.4 percent of the nursing students and 67.9 percent of the law students (Hendershott *et al.*, 2000).

Christian social ethics did not reflect the role of implementation including economics and management studies. On that background of mutual speechlessness it seems remarkable that the recent social encyclical *Caritas in veritate* (Civ) of Pope Benedict XVI (Benedict, 2009) – following a path initiated by John Paul II in his social encyclical *Centesimus annus* – more explicitly reflects developments in the business world[2]. More than that, Civ opens up very interesting new perspectives: Companies are perceived not only as market actors responding to external economic stimuli, rather they appear – in a “multifaceted perspective” – as essential cultural factors and are also reflected in their willful contribution to the common good.

2. Practical wisdom in the social encyclical *Caritas in veritate*

A reflection on Civ about wisdom states that:

Knowledge is never purely the work of the intellect. It can certainly be reduced to calculation and experiment, but if it aspires to be wisdom capable of directing man in the light of his first beginnings and his final ends, it must be “seasoned” with the “salt” of charity (Civ n. 30).

The Pope certainly estimates the extension of knowledge here, but he also exposes its limitations. Knowledge is not necessarily wisdom, but knowledge has to be complemented with charity in order to become wisdom.

Knowledge and wisdom applied to the business reality both are characterized by being oriented to a merely practical reality: the management. In this sense, we ask: how can business knowledge in practice be enriched by elements of charity to become managerial practical wisdom? We argue that in order to convert managerial knowledge in practical wisdom it is necessary to enlarge instrumental reasoning with an

enrichment of management practices and teaching. Three elements play a crucial role here: the way to integrate charity in management theory; the developing and teaching of management; and the conceptualization of knowledge in business.

3. Seasoning management practice: integrating reciprocity in management

According to Civ to enrich managerial practice means to consider “that in commercial relationships the principle of gratuitousness and the logic of gift as an expression of fraternity can and must find their place within normal economic activity” . . . and yet “that is demanded by economic logic” (Civ n. 36). Certainly an encyclical is not a management handbook but it is interesting to acknowledge that economists have already studied concepts like “gratuitousness”, “logic of gift” and “reciprocity”.

For example, according to Zamagni (2008) a correct approach to incorporate the “logic of gift” into economics recognizes reciprocity as an additional mode of economic behavior. Indeed reciprocity diverges from pure tit for tat market exchange:

Market exchange occurs when an agent A sells something to B, who also decides freely to give something back to A. In economic terms, what B gives to A is the price and this price is determined by the market exchange rate that precedes the transaction from A to B. If there is no “agreement” the transfer will not take place. Once the agreement is achieved, however, B is constricted by law to fulfill his/her obligation to pay what is the price (a claim of A that may even be reaffirmed or specified in court). A reciprocal relationship within the “logic of gift” is fundamentally different, here. A freely decides to give something to B, waiting for B in the future to do something similar for A, or perhaps for a third agent C. There is no quantitatively fixed obligation for B to fulfill. A made only one step towards B and if this is betrayed, it may happen that A interrupt (or modifies) the relation with B. B may of course behave opportunistically. As the original gift is an expression of freedom and creativity, so is the “answer” of B, who is not obliged to pay a fixed amount of money as in a market transaction. Therefore reciprocity is a “fragile inter-subjective relationship” (Zamagni, 2008).

The value ratio in the relationship also differs within a reciprocal relationship. In market exchange the value of exchanged goods is expected to be equivalent. In reciprocity, however, what B will give to A (or maybe to C) will not necessarily be equivalent to what A had given to B. In many cases B will also give something to A or to C, but according to his/her capabilities and not according to what he had received earlier.

It is an important expression of practical wisdom to bring these aspects to the attention of mainstream economics again. Even if activities of that kind have been studied in economic and business literature (Kolm, 2008; Ben-Porath, 1980) and the recent experience of global financial crisis nurtured some interest in them, they still struggle to find entrance into mainstream business theories and management education. The earlier economic discussion on altruism granted some insight, here (Hirschman, 1992; Becker, 1996). The relation between altruism, reciprocity, and gratuitousness still has to be clarified and is not the issue of this paper. Practical wisdom, however, reminds us that reciprocity should not simply be judged as economically inefficient.

It may be argued that reciprocity and the logic of gift are restricted to the “non-profit” sector (charity organizations, foundations, NGOs, etc.); however – as the encyclical also states – that is not the case. Reciprocity is present in many “for-profit” operations as well, for example: in cooperatives, in family business, in social enterprises, in employee stock ownership plans, etc. And gratuitousness is behind a

series of economic activities like stakeholder dialogues, certain types of corporate citizenship engagement or corporate volunteering which may certainly also be analyzed in economic terms. Under which conditions are corresponding business strategies successful? What are strengths, what are crucial success factors, what are weaknesses of those strategies? Civil society, market, and state form part of the same anthropological structure of social reality here (Civ n. 38-39). That is why reciprocity is so vigorously proposed by practical wisdom. Of course management theory will primarily consider those aspects of business reality that serve as dominant drivers of value-creation; but it must not unilaterally focus on maximization techniques in doing so. Expanding economic and business reason towards the inclusion of gratuitousness is the key to overcome a widespread reductionism and nurture practical wisdom in business schools.

4. Seasoning management education: enriching business school experience

A second approach to inject practical wisdom into management education is by enriching the business school experience. We may ask where future managers may learn about the logic of reciprocity, and business schools are certainly a possible place to do so. As indicated above, problems of personality formation of future managers have been reported by leading management scholars (Pfeffer and Fong, 2002; Ghoshal, 2005). Accordingly human resources managers complain about a lack of social competence and “emotional intelligence” in many assessment center selection processes. Future business leaders will not only be confronted with pressures for profit maximization but also with the need to attract and motivate staff, to shape the corporate culture, to assure the reputation of the business, etc. Successful decisions assume the knowledge of a broader spectrum of management tools and behavioral logics. Society requires practical wisdom and responsible behavior of managers but business schools and universities seldom mention it or confront their students with it. The pretence that economy and management are morally neutral is evidently wrong.

Despite the tendencies referred to above, students have not yielded entirely to economic reductionism posed by the business and economic curricula; rather student networks based on volunteerism promote ethical issues in universities in an extracurricular way. Within international networks like NetImpact (2009), Oikos (2009), AIESEC (2008) and national ones like Sneep in Germany and DesarrollaRSE in Peru, students are creatively covering the gaps in their ethical training on a voluntary basis. However, this widespread application of reciprocity in management development has not yet been studied and analyzed scientifically.

Practices of “service learning” play an increasingly important role in management development today (Hutchinson, 2005; Quintanilla Pérez-Wicht *et al.*, 2006). They are also promoted by private companies – like PriceWaterhouseCoopers with their Ulysses program (Hirsch and Horowitz, 2006) – which integrates elements of personal formation and service learning into their internal management development programs.

Another factor that should be taken into account is linked to the internal integrity of business schools. There is a growing interest – at least in the Catholic world – in the social responsibility of universities themselves and the demand to manage their educational institutions in accord with the contents that are taught in their courses (Goodpaster and Maines, 2008). The formulation of “Principles for Responsible Management Education (PRME)” by the United Nations Global Compact together with leading International Institutions of Management Development is one step in that

direction. If business schools reflect on their own social responsibility and students participate in that process, this may contribute to a growing conscience concerning the responsibility of companies in their social environment as well. These and other (yet) marginal and extracurricular initiatives are waiting to be mainstreamed in order to enrich the professional profile of business students and to equip tomorrow's managers with practical wisdom.

The concept of gratuitousness also challenges relationships between “for profit” and “non-profit” (NPO) organizations. Among NPOs the importance of management development is increasingly acknowledged. More and more programs are devoted to the “professionalization” of NPO managers. They are learning from “for-profit” colleagues what it needed to be more efficient. However, if it is true that important dimensions of “professional” performance must be characterized with a logic of gratuitousness, the complementary learning process should also be pursued: The “for profit” sector may learn from his alleged partner, here (Seitanidi and Crane, 2009). Social competencies and responsible behavior as an expression of practical wisdom – taking into consideration the personal dignity of people – will become an important success factor for business operations in the Global markets of the twenty-first century. This holds especially true for Corporate Citizenship programs and social engagement in the context of production sites in less developed countries – an issue of growing importance within business schools. As *Caritas in veritate* puts it:

There exist various types of business enterprise, over and above the simple distinction between “private” and “public”. Each of them requires and expresses a specific business capacity. In order to construct an economy that will soon be in a position to serve the national and global common good, it is appropriate to take account of this broader significance of business activity. It favors cross-fertilization between different types of business activity, with shifting of competences from the “non-profit” world to the “profit” world and vice versa, from the public world to that of civil society, from advanced economies to developing countries (Civ, n. 41).

5. Seasoning management knowledge: enlarging the perspective of management decision making

Practical wisdom plays an important role in sustainable management practice. This includes a “realistic” perspective on the social environment, which takes into consideration a plurality of rationalities (including instrumental and personalistic) and a plurality of goals (including business success and realization of the common good). Therefore, practical wisdom may serve as a counterpart to the specialized disciplinary forms of rationality that dominates scientific analysis (*homo oeconomicus*, rational choice). In that sense, is important to underline that wisdom is wider than knowledge, it includes scientific rationality but also transcends it.

There is no contradiction between practical wisdom and the results of specialized disciplinary analysis. Moreover, specialization and division of labor in science permits us to elaborate theories to explain and elucidate our understanding of reality. However, if the results of these disciplinary academic operations “become practical” in the sense of inspiring real world decision-makers to act, they need to be contextualized into broader perspectives of reality which are interwoven with normative deliberations. For example, even if economic analysis in the form of “principal-agent-model” suggests a certain set of incentive structures to motivate staff, an excellent leader will draw on his

practical wisdom to decide to what extent he can apply this advice in his business practice. He may for instance take into consideration possible unintended consequences and “costs” of rigid incentive structures for his business culture – as many successful entrepreneurs do.

This example shows that practical wisdom overcomes a restriction to “one-fits-all” types of rationality. The successful entrepreneur carefully weighs different approaches against each other without being ideologically captivated by a single concept. Practical experience of life plays a crucial role here. Small and medium entrepreneurs – many of them acting successfully for generations within family firms – have developed a clear perception for mutual interdependencies that call for a prudent decision practice; for example, they perceive their ethical responsibility primarily in relationship with their employees (Hamman *et al.*, 2009) even if from a pure business logic shareholders or clients may seem more important.

In the Christian version a certain internal detachment from the all-encompassing business logic of economic success is included here. This does not mean that the Christian entrepreneur is somewhere less smart or hard working than his colleagues are. However, he or she makes decisions remembering that his inner value as a person is not dependent on the result of his endeavors. If, despite of all his efforts, his goals turn out to be not attainable, that is not a threat to his self-confidence. Rather, he knows that it is the unconditional love of God that holds him in his existence – and even allows him to cope with disappointments.

6. Conclusion

The challenge of recent Catholic social thought for business schools has been understood as seasoning business knowledge with the logic of charity – expressed as reciprocity and gratuitousness. We presented three different paths to follow: the first oriented to the praxis of management; the second oriented to the management education; and the third oriented to the managerial rationality and related decision-making process.

Following these paths will not be a blueprint for ethical management behavior; however it may open up experience horizons which can help future managers to grow in practical wisdom. Seasoning business knowledge does not mean to completely change all the ingredients. This would mean to ignore the fact that modern scientific research is by itself inspired by ethical ambitions in many of its expressions. A concept of “seasoning” also implies that a little input can make a large difference. Christians may not do totally different things but they may do things totally differently. A pinch of charity may change everything. Companies have learned this in the past; business schools should be the place where these experiences are stored for a better future.

Notes

1. See also the contribution of H. Alford in this issue.
2. It meets here with similar documents of other Christian denominations like two papers on business ethics published by the German Protestant Church EKD.

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