J Bus Ethics (2017) 145:711–724
DOI 10.1007/s10551-016-3127-5

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What Corporate Governance Can Learn from Catholic Social Teaching

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Received: 23 July 2015 / Accepted: 14 March 2016 / Published online: 4 April 2016
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Abstract This reflection focuses on what insights Catholic Social Teaching (CST) can provide for corporate governance. I argue that the 'standard' agency theory is overly reductionist and insufficiently incorporates important economic limitations (such as asymmetric information, incomplete contracts, and the need for coordination) as well as human frailty. As a result, such agency theory insufficiently distinguishes firms from markets, which can easily relativize how we treat others and facilitate rationalization of unethical behavior. I then explore how three pillars of CST—human dignity, solidarity, and subsidiarity—can help overcome these limitations. CST proposes a vision of the business corporation as a community of persons, working together in cooperative business relationships toward the shared purpose of contributing to human flourishing.

Keywords Corporate governance · Catholic Social Teaching · Human flourishing · Solidarity · Subsidiarity

Introduction

In this article, I explain what insights to corporate governance I have so far learned from my study of the Catholic Social Teaching as contained in papal encyclicals like *Rerum Novarum* (Leo XIII 1891), *Centesimus Annus* (John Paul II 1991), and *Caritas in Veritate* (Benedictus XVI 2009). I first try to describe why I (now) think that agency theory (as exemplified by Jensen and Meckling 1976)—the standard paradigm in most academic corporate governance research published today—is overly reductionist and needs an overhaul. Corporate governance can benefit from a more catholic—if not Catholic—perspective.

In this standard paradigm (with a separation of ownership and control, incomplete contracting, and where markets are assumed to be efficient, complete, and competitive), the assumptions imply that maximizing the financial wealth of the shareholders is the optimal corporate purpose. The main inefficiency considered is managerial opportunism, to which ex-ante contractual incentives and exposure to ex-post market discipline are offered as the main tools generally available to mitigate this inefficiency.

Notwithstanding the wealth of insights standard agency theory provides, I argue that it tends to insufficiently incorporate economic and human limitations. First, agency theory typically downplays three important economic limitations that distinguish firms from markets: asymmetric information, incomplete contracts and markets, and the need for coordination through power in corporate hierarchies (Rajan and Zingales 1998). The primary difference between corporations and markets (Coase 1937; Garvey 2003) is that corporations require explicit coordination toward a cooperative, shared purpose, while once embedded in an environment with transparent and enforced rules, markets can largely be led by 'the invisible hand.'

Second, standard agency theory takes personal preferences as given without acknowledging our common human frailty. Given our 'human brokenness', we often may not recognize what is good for us and others, we may not want what is good or substitute 'lower' for 'higher' goods even if we do, and finally, our actual behavior may not

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correspond to what we would want. These human limitations include what psychologists and economists call bounded rationality, opportunism, and behaviorism (see Williamson 1988).

The reductionism in standard agency theory has the following three implications.

First, it may prevent a consideration of what the purpose of business is (i.e., beyond creating financial value), what our responsibilities in business are (i.e., beyond honoring what's written in contracts), and how persons working in business can develop and grow their virtues and skills (i.e., beyond making that one's own individual responsibility). If preferences are taken as given, as individualistic or even relativistic, then these questions have little place in the discussion and could lead to the mistaken notion that the strong assumptions behind agency theory are 'morally neutral' (or devoid of ethical content). As Dobson (1999, p. 71) points out, "nothing exists outside a metaphysical context." There is no morally neutral ground regarding the why, how, and what of business, as business is done by, with, and for people, and anything affecting human persons pertains to morality. The set of principles proposed by CST—human dignity, solidarity, and subsidiarity—can serve to direct a rational discussion of purpose, responsibilities, and virtue in business.

Second, by downplaying the economic limitations (of asymmetric information, incomplete contracts, and the need for coordination), economists risk missing the inherently social or cooperative nature of value creation in firms, where multiple stakeholders have to commit to working together toward a common goal (see Mayer 2013). Indeed, as standard agency theory lacks sufficient appreciation of how firms as social organizations are different from competitive markets, it tends to neglect what is arguably the main problem impeding the creation of value, namely how to coordinate—through the use of power—the activities of many different stakeholders who in cooperation contribute to the creation of corporate value (Williamson 1988; Mayer 2013; and Johnson et al. 2015).

Third and finally, I argue that agency theory may facilitate a rationalization and justification of unethical behavior. If shareholders, directors and corporate managers see themselves as 'only' participants in fully competitive markets where all of the other participants are (or should be, as they are presumed to have opportunity to be) fully informed with effectively complete contracts, they may reasonably think that any legally sanctioned action is also morally legitimate. Similarly, the more people think that they are engaged in a 'morally neutral' activity, or assume that how we treat others is purely relativistic, the more they may be susceptible to misusing their power. In situations with more asymmetric information, incomplete contract/markets, and limited competition, those who have superior information, power, and control have more opportunity to abuse their information, power, and control at the expense of others, particularly those with the least information, power, and control (including but not only minority shareholders).

In order to consider what insights Catholic Social Teaching (CST) can provide to overcome these limitations, I first briefly describe three main pillars of CST, namely human dignity, solidarity, and subsidiarity. After that, I propose three functions of corporate governance—a compass, commitment, and criteria function—and relate each of these three functions to these three pillars of CST.

The first pillar of human dignity means that we "recognize in [our]self and in others the value and grandeur of the human person (John Paul II 1991, #41)." The most important aspect of any social organization like a business is that it is a community of human *persons*, whose purpose is to contribute to human flourishing, and where no person should ever be harmed or treated purely instrumentally. The dignity of the human person is derived from us being 'made in the image of God' (Genesis 1:27) as unique, valued and called to communion with God and others. As a result, human flourishing has inescapable religious and social aspects as well and cannot be reduced to only material or to only individual well-being.

The second pillar, solidarity, emphasizes the social nature of the human person, linking our right to have our dignity respected by others to our duty to respect the dignity of others, which requires us to consider our social responsibility. Christian anthropology indicates that one's 'self-interest' is linked with and depends on others' 'self-interest,' or within organizations with the organization's shared interest (Sison and Fontrodona 2012).

The third pillar of CST is subsidiarity, which describes conditions where people have opportunity and freedom to participate, serve others, and receive help to develop toward their full potential (Guitián 2015). Subsidiarity in corporations implies sufficient space for and helps toward participation and personal development, providing each person with opportunities for creativity and learning, coordinated toward the creation of shared value within the corporation in solidarity (Naughton 1995). Subsidiarity facilitates integral human development (Melé and Dierksmeier 2012), such that human dignity, solidarity, and subsidiarity form an interrelated and harmonious triad.

Next, I consider how these three pillars can inform three functions of corporate governance: to serve as a compass, as a commitment device, and to establish criteria for excellence. The compass values, commitments, and criteria depend on human anthropology (Malinvaud and Glendon 2006; Sandelands 2009). Our view of human nature informs our compass values (e.g., what corporate products and services actually contribute toward human flourishing)

and our commitments (what social responsibility means for how to treat others), and what constitutes excellence (human flourishing).

This article builds on a large literature on CST, business ethics, and financial economics that I can refer to only too summarily (for excellent introductions to CST, see PCJP (2014); and Cortright and Naughton 2002) and that I have only fairly recently started to become acquainted with. Realizing my own limited and developing understanding, I offer this article as speculative and tentative, in the hope that sharing my personal reflections helps other economists reflect on how to integrate their profession with their faith (see also Rossouw 1994 and recent articles in Melé and Naughton 2011 and Schlag and Mercado 2012). I also hope my article provides some basis for conversations with theologians and philosophers (whom I leave the reversed question of what they can learn from economists).

Agency Theory and Its Limitations

Started as early as Berle and Means (1932), agency theory has dominated corporate governance soon after the seminal paper by Jensen and Meckling (1976). As early as 1987, Stephen Ross would remark that "[a]gency theory … is now the central approach to the theory of managerial behavior (see Ross 1987)." Jensen and Meckling's theory employs a set of basic assumptions about the production process of the firm (taken as given in assumed competitive markets, typically in partial equilibrium), the market (assumed to be complete so that e.g., potentially heterogeneous risk preferences do not matter), and the information environment (assumed to be highly efficient such that market prices accurately reflect the economic fundamentals). These assumptions collectively imply that optimal production decisions are unambiguous and not subject to disagreement between either corporate insiders and shareholders or among investors more generally, such that there is one particular efficient course of action that not only maximizes total shareholder value but also overall social welfare for all stakeholders involved in the corporation.[1]

The main inefficiency considered in agency theory is that the firm's managers may make opportunistic decisions they personally benefit from but are suboptimal socially, which is called the 'managerial moral hazard' problem. From this set of strong initial assumptions, maximizing the financial wealth of the shareholders follows as the corporate purpose, managerial opportunism, or moral hazard emerges irrevocably as the main priority to solve (because by assumption, this is the sole inefficiency considered), and ex-ante contractual incentives and exposure to ex-post market discipline arise naturally as the optimal practice (as these are the only tools generally available in the standard agency theory set-up, with markets assumed to be efficient, complete, and fully competitive).

Jensen and Meckling (1976) further explicitly employ a reductionist view of the firm, which they define as "one form of legal fiction which serves as a nexus for contracting relationships … characterized by the existence of divisible residual claims on the assets and cash flows of the organization which can generally be sold without permission of the other contracting individuals." The essence of the firm thus consists of "contractual relations, […] not only with employees but with suppliers, customers, creditors, etc." Their definition focuses on the individualistic and contractual nature of the firm, with no distinction between the corporation and the market, writing "it makes little or no sense to try to distinguish those things which are 'inside' the firm from those things that are 'outside' it." Essentially, anyone 'outside' the firm has a potential contract with the firm and thus, is not really outside the firm. It further follows that "asking questions such as 'what should be the objective function of the firm' or 'does the firm have a social responsibility' is seriously misleading." As Jensen and Meckling observe, "[t]he firm is not an individual," and only individual persons have objectives or responsibilities. This begs the question that is not addressed in Jensen and Meckling: what then is the purpose and social responsibility of the individuals governing the firm?

Milton Friedman (1970) answered this question in his famous 1970 New York Times article, arguing that "there is one and only one social responsibility of business—to use it[s] resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud," arguing that those who speak of "social responsibilities of business in a free-enterprise system" of "preaching pure and unadulterated socialism" and "undermining the basis of a free society." Rather, Friedman (1970) claims that "the whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal" (i.e., the stockholders), such that the corporate executive simply needs to follow the dictates of the markets and thus maximize shareholder value. Anything else like "the doctrine of 'social responsibility' involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses."

[1] See also Easterbrook and Fischel (1991) and Macey (1991), who combine these assumptions with the argument that shareholders as residual claimants have most at stake (and thus have the appropriate incentives to make corporate decisions on behalf of all stakeholders) to argue for shareholder control of the firm.

While extremely elegant and insightful, agency theory is reductionist in three related respects. First, it does not fundamentally distinguish between firms and markets, arguably because it insufficiently appreciates the importance of a triad of important economic limitations inherent in social organizations like corporations, namely limited information, limited completeness, and limited independence.

1. Limited information implies asymmetric information with unequal access to, sharing, and understanding of information across the organization. Managers will have better tactical and strategic information, while sales persons may have better information on actual customer needs. Outside investors will have significantly less information about the corporate investment opportunities and production process than insiders, etc., but may have superior information about other investment opportunities outside of the corporation
2. Limited completeness refers to incomplete contracts and markets: contracts of employees, suppliers, and customers cannot deal explicitly with all possibilities. Typical employee contracts deal with generalities only, and employees (and likewise large suppliers and large customers) will generally make substantial firm-specific investments (such as learning procedures or new production technologies, and developing interpersonal networks) that are more valuable in their specific relationship with the corporation than outside of that relationship. Markets are also subject to limited completeness, e.g., in the sense that not all risks that matter can be fully hedged or insured.
3. Limited independence is inherent in cooperative team work, where one's effectiveness is interdependent on everyone else's effectiveness. As a result, value is created not primarily through adversarial bargaining (as typical in competitive auction-style markets), but through longer-term, cooperative relationships that are characterized by interdependence, i.e., by shared agency

This triad of economic limitations is intrinsic to the corporate environment, where soft information needs to be shared in cooperative and interdependent relationships, where entrepreneurship requires flexibility without rigid and overly detailed formal contracts, and where operational efficiency is facilitated by divisions of labor between people with complementary skills.

Second, by downplaying this triad of economic limitations, agency theory risks missing the social, cooperative nature of value creation in firms. If you assume away what makes firms (as social organizations) different from competitive markets, then the solution to whatever corporate problems arise will be predetermined, namely to increase exposure to competitive market mechanisms. None of this means that I do not recognize the importance of markets, e.g., for providing and aggregating information, for incentivizing and connecting individuals and firms to their mutual benefit, and for the efficient allocation of goods and services.

Third, many economists do not view these reductions as critically important, arguably because they (often perhaps implicitly) employ an atomistic view of the human person. Downplaying our social nature may lead to an under-appreciation of the interdependence in human work and consequently of the importance of interpersonal relationships and each person's participation in the shared purpose underlying any social organization.

The recognition of these economic limitations has broad implications, which I can summarize as another triad:

1. Firms are not 'nexuses of contracts' that are operating in a fully competitive market setting (as in Jensen and Meckling 1976) but rather 'islands of conscious power' (as in Coase 1937).
2. All stakeholders, including shareholders, need to ex-ante commit to longer-term cooperation, where it is in each stakeholder's best interest to limit their individual rights to allow other stakeholders to better cooperate with the corporation.
3. A reductionist competitive market conception of the firm easily rationalizes and justifies inflicting harm on others through unethical business practices.

First, Coase (1937) explains how the three economic limitations described above necessitate the formation of corporations, as summarized by Rajan and Zingales (1998, p. 387):

> "Coase (1937) suggested that transactions that are typically conducted within the firm are not governed by the price mechanism but by a power relationship. … Coase compares firms to 'islands of conscious power in this ocean of unconscious co-operation.' … The role power plays within the firm is to foster and protect relationship-specific investments (i.e., investments that have little or no value outside a relationship but great value inside it) … in an environment where contracts are incomplete."

As a result, the standard agency theory is not a good descriptive model of how firms actually behave and create value. The *first* priority of corporate governance may thus not be the reduction of managerial moral hazard, but rather how 'to foster and protect relationship-specific investments in an environment where contracts are incomplete' (see above), a concern that does not arise in the 'nexus of contract' conceptualization of the firm. Rajan and Zingales (1998, p. 390) argue that the first-order problem of

corporate governance lies in "creating an ex-ante environment that encourages investment. This is different from its ex-post role in protecting the returns to specific investments." I would argue that 'creating the ex-ante environment' is about creating binding ex-ante commitment, while the 'ex-post role in protecting the returns' involves exposure to market discipline with ex-ante incentive-based contracts and 'ex-post settling up' (see Fama 1980).

The emphasis in Rajan and Zingales (1998, p. 391) on creating commitments toward relationship-specific investments

> "highlights the role played by internal organization [i.e., corporate governance] in enhancing the value of the firm. The essence of internal organization … is the differential access agents within the firm have to the unique physical and human assets that compose the core of the firm … enabl[ing] a firm to coordinate, and enhance, overall specialization."

Second, greater exposure to market discipline—either through ex-ante incentive contracts or from ex-post sanctions for corporate insiders—may not necessarily help to create shareholder value, let alone contribute to long-term value for all stakeholder groups.[2] I can again give three reasons: market participants may be inadequately informed, increased exposure to the market may render ex-ante commitments to long-term value creation more difficult (particularly for stakeholders such as employees and large suppliers and customers), and more powerful investors could ex-post transfer wealth from other stakeholder groups to themselves. Market prices may fail to accurately reflect firm fundamentals, especially for firms engaged in non-standardized, innovative, or long-term production processes characterized by asymmetric information and with short-term, relatively uninformed shareholders. This potential market failure is not about market prices inefficiently not reflecting some public information and is separate from investors acting 'irrationally' (e.g., as studied in behavioral finance), but rather can be caused by a combination of market participants (i) having limited access to fundamental information, (ii) facing incomplete contracts and markets, and (iii) being subject to collective action problems such as the 'free rider' problem preventing efficient information gathering.

Managerial moral hazard notwithstanding, the main challenge of leadership seems to create integrative unity among the diverse group of people within the organization (see, e.g., Follet Follett 1942 and Sandelands 2010), helping others to commit to mutually beneficial cooperation toward a shared purpose, which requires trust. Such commitments may require a longer-term focus than markets provide (especially if shareholders have strong 'exit rights,' see Cremers and Sepe 2016), in which case an overemphasis on increased exposure to competitive market mechanisms may impede rather than strengthen these longer-term commitments. For example, activist shareholders can on short notice change corporate policies, which may make it harder for other stakeholders to commit for longer-terms without some protection from these potential changes. This is especially important for stakeholders such as employees and large customers and suppliers who need to make longer-term and firm-specific investments in their relationship with the firm (see e.g., Johnson et al. 2015).

Third, ignoring these economic limitations can lead shareholders and managers to rationalize and justify inflicting harm on others. After all, if shareholders and managers see themselves as simply behaving as rational participations in fully competitive markets, assuming that these markets are efficient and in an equilibrium where all of the other participants are (or should be, as they presumably have opportunity to be) fully informed with effectively complete contracts, then they may reasonably think that any market action is automatically justified as consistent with advancing social welfare. It is only after acknowledging the role of limited information, limited completeness, and limited independence that it becomes clear that certain market participants may very well have information, power, or control that can be abused at the expense of others, especially those with the least information, power, and control.

For example, large shareholders could potentially increase their own financial wealth at the expense of other stakeholders, especially if these other stakeholders have a contract with relatively fixed benefits (such as bondholders and most employees) or have made firm-specific investments that are less valuable outside of the corporate relationship (such as is typical for large suppliers and customers). The appearance of shareholder activists who ask corporate boards to increase leverage and dividend payouts is associated with positive market returns for shareholders but with negative market returns for bondholders, which is potentially indicative of expropriation of wealth from bondholders (see Klein and Zur 2011). Similarly, employees, large customers, and suppliers may have made substantial firm-specific investments and have benefits that are mostly fixed (similar to bondholders). Shareholder activists or disruptive takeovers may likewise expropriate prior-expected benefits from these other stakeholders. Ex-ante, customers, suppliers, and employees may rationally try to protect themselves from future expropriation by increasing the cost of their participation or by limiting their firm-specific investments. However, the

[2] See Cremers and Sepe 2016, especially Sect. 3.

economic limitations mentioned restrict the extent that they may be able to do this, especially for those with limited information, contracts and access to alternatives (such as people in entry-level or relatively low paying jobs).

Solutions in Light of Catholic Social Teaching

In this section, I consider how three pillars of Catholic Social Teaching (CST)—human dignity, solidarity, and subsidiarity—provide key ideas to adapt agency theory to help overcome the reductionism of agency theory. While within CST these three pillars are derived from a theological understanding of the human person, it seems to me that it is quite possible to agree that human dignity, solidarity, and subsidiarity are important and useful concepts even without fully subscribing to Catholic Christian anthropology.[3] For example, there is a broad consensus about the importance of basic human rights derived from the fundamental human dignity of each person across religions and cultures, where "'[w]e agree about the [human] rights,' [Jacques Maritain] famously remarked, 'so long as no one asks us why' (see Glendon 2011, p. 42)." Similarly, one need not be a Christian to recognize that we have real social responsibilities (i.e., are called to solidarity, as exemplified in recent trends toward sustainability, corporate social responsibility, and impact investing), or that creating opportunity, encouraging full participation and helping employees toward integral human development are important corporate social responsibilities.

In Catholic Christian anthropology, persons share a universal 'human nature' that we do not choose—as we are creatures rather than creators. In this conception, the nature of the human person is teleological, of great value and 'incommunicable' (i.e., each person is unique/un-substitutable). Human persons flourish (and find lasting happiness or joy) to the extent that their particular lives are lived according to their nature, increasingly conforming to and fulfilling their creation in 'the image of God.' As 'Catholic' means 'universal,' these teachings on human nature, the 'telos,' or purpose of human flourishing and human happiness are universal claims, even if the specific application may depend on each person's unique gifts, relationships, and circumstances and follow from the 'natural law.' Dierksmeier and Celano (2012, pp. 248–249) defend the universal legitimacy of the Catholic appeal to the natural law as supported by

> "… the philosophical conviction that through sound philosophical thinking the essential order of life is recognizable, at least in its most fundamental principles. … In his view, the human being is endowed with rational capacities sufficient for earthly life; they may be supervened, but are not contradicted or annihilated by 'supernatural', i.e., revelation-based, knowledge. In emphasizing the capacity of human reason to reach truth unaided by faith, Thomas [Aquinas] addresses the rational powers of every human being, everywhere and always. … True faith ought to be based upon worldly knowledge, since God chose to reveal himself also in, and through, his creation. … For that reason, the natural law does not represent some naïve naturalism, but rather depends on a reason-based interpretation of human inclinations."

Human Dignity

First, the key to the "Christian vision of reality" is to "recognize in [our]self and in others the value and grandeur of the human person (John Paul II 1991, #41)." The starting point is the recognition that the most important thing of any social organization (like a business) is that it is a community of persons, whose purpose is to contribute to human flourishing. This dignity means we should avoid harming others and never treat others purely instrumentally. In CST, the fundamental equal dignity of the human person is inherent in each human person, is derived from each person being 'made in the image of God' (Genesis 1:27), and is unconditional (i.e., not conditional on particular personal attributes, talents, judgments or actions, which given our fallibility would render dignity limited, relative and precarious).

CST sees "human freedom exercised in the economic field" at the basis of the important, positive contribution of business to human flourishing, emphasizing both "the right to freedom, as well as the duty of making responsible use of freedom" (John Paul II 1991, #32). CST recognizes "the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector," as long as "freedom in the economic sector is … circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious" (John Paul II 1991, #42).

Moreover, Christian anthropology recognizes that the human person has an essentially social nature, as "the human person needs to live in society, [which] is not for him an extraneous addition but a requirement of his nature. Through the exchange with others, mutual service and dialogue with his brethren, man develops his potential

[3] See e.g., the Compendium of the Social Doctrine of the Church by the Pontifical Council for Justice and Peace (2004), especially chapter 3 on 'The Human Person and Human Rights.'

(CCC, 1879)." The intrinsically valuable, incommunicable, and social nature of the human person provides the basis for recognizing that in any social organization (such as a corporation) "the human person… is and ought to be the principle, the subject and the end (CCC, 1881)." Furthermore, our social nature means that we have a "natural tendency … to associate with one another for the sake of attaining objectives that exceed individual capacities" in social organizations (see also Melé 2011), where recognition of each other's human dignity gives rise to solidarity and subsidiarity.

Solidarity

> "[Solidarity], then, is not a feeling of vague compassion … On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say, to the good of all and of each individual, because we are all really responsible for all. … [Solidarity is] a commitment to the good of one's neighbor with the readiness, in the Gospel sense, to 'lose oneself' for the sake of the other instead of exploiting him, and to 'serve him' instead of oppressing him for one's own advantage (cf. Mt 10:40–42; 20:25; Mk 10:42–45; Lk 22:25-27). …
> Solidarity helps us to see the 'other'—whether a person, people or nation—not just as some kind of instrument, with a work capacity and physical strength to be exploited at low cost and then discarded when no longer useful, but as our 'neighbor,' a 'helper' (cf. Gn 2:18–20) to be made a sharer, on a par with ourselves, in the banquet of life to which all are equally invited by God (John Paul II 1987, #38–39)."

The second pillar, solidarity, follows from the first, of human persons having intrinsic dignity. Our right to have our dignity respected by others is irrevocably linked to our duty to respect the dignity of others, i.e., each being the flip side of the other, requiring us to live in solidarity with others, as explained by Pope Benedict XVI (2009, #43):

> "'The reality of human solidarity, which is a benefit for us, also imposes a duty'. Many people today would claim that they owe nothing to anyone, except to themselves. They are concerned only with their rights, and they often have great difficulty in taking responsibility for their own and other people's integral development. Hence it is important to call for a renewed reflection on how rights presuppose duties, if they are not to become mere license. … An overemphasis on rights leads to a disregard for duties. Duties set a limit on rights because they point to the anthropological and ethical framework of which rights are a part, in this way ensuring that they do not become license. Duties thereby reinforce rights and call for their defense and promotion as a task to be undertaken in the service of the common good."

Applied to business, the connection between rights and duties means that corporations have a social responsibility, starting with the recognition of the social purpose of the corporate resources. CST connects the right to private *ownership* of goods to the duty to consider the rights of others by considering the social purpose in the *use* of those private goods. Within corporations, this means that the corporate resources, such as e.g., one's position in the firm, should contribute toward shared benefits for the whole corporate community of persons—with each individual sharing in these benefits dependent on their particular role.

The social purpose of private goods has as its foundation our nature as social creatures, for whom everything—including ourselves—is a gift.[4] Social responsibility (or the duty to consider the social purpose) of private resources is also referred to as 'the universal destination of material goods':

> It is necessary to state once more the characteristic principle of Christian social doctrine: the goods of this world are originally meant for all. The right to private property is valid and necessary, but it does not nullify the value of this principle. Private property, in fact, is under a 'social mortgage,' which means that is has an intrinsically social function, based upon and justified precisely by the principle of the universal destination of material goods (John Paul II 1987, #42).

CST specifies principles to judge when private property such as corporate resources are used in just and legitimate ways and thus are used conform to solidarity, and when their use becomes illegitimate, based on whether they benefit the person-in-community and contribute to solidarity (John Paul II 1991, #43):

> "Ownership of the means of production … is just and legitimate if it serves useful work. It becomes illegitimate, however, when it is not utilized or when it serves to impede the work of others, in an effort to gain a profit which is not the result of the overall expansion of work and the wealth of society, but rather is the results of curbing them or of illicit exploitation, speculation or the breaking of solidarity among working people."

[4] See also John Paul II (1991, p. 31): "The original source of all that is good is the very act of God, who created both the earth and man, and who gave the earth to man so that he might have dominion over it by his work and enjoy its fruits (Gen 1:28). God gave the earth to the whole human race for the sustenance of all its members, without excluding or favoring anyone."

Subsidiarity

Pope Pius XI (1931, #79) defines subsidiarity as follows:

> "Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them."

John Paul II (1991, #48) provides both the 'negative' and the 'positive' sides:

> "the principle of subsidiarity must be respected: a community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good."

Subsidiarity depends on respect for human freedom, and on the responsible use of human freedom. Subsidiarity means that people have opportunity and freedom to participate and receive help (in Latin: 'subsidium') to develop toward one's full potential but only when needed, the duty to help others when needed, i.e., the freedom to act according to one's own initiative and creativity—allowing sufficient space for entrepreneurship and the taking of risks, coordinated toward the creation of shared value within the corporation.

The purpose of subsidiarity is integral human development, i.e., development toward human flourishing in all aspects, including material and social well-being as well as growth in skills and virtue. The promotion of integral human development that takes a truly human person-centered approach is first a moral duty and thus a priority (following from the fundamental dignity of each person and solidarity), but secondarily also makes sense economically or practically, as doing so allows the corporation to better benefit from each person's capabilities. The moral duty to help others participate more fully is particularly important as

> "perhaps the majority today do not have the means to take their place in an effective and humanly dignified way within a productive system in which [human] work is truly central, … [have] no possibility of acquiring the basic knowledge which would enable them to express their creativity and develop their potential, … no way of entering the network of knowledge and intercommunication which would enable them to see their qualities appreciated and utilized. … [I]f not actually exploited, they are to a great extent marginalized. (John Paul II 1991, #33)."

This requires that

> "each person [can] consider himself a part-owner of the great workbench at which he is working with everyone else, … [that] members of each body would be looked upon and treated as persons and encouraged to take an active part in the life of the body, … able to take part in the very work process as a sharer in responsibility and creativity within the production process. …. [This is] extinguished within him in a system of excessive bureaucratic centralization just a cog in a huge machine moved from above, … a mere production instrument rather than a true subject of work with an initiative of his own (John Paul II 1981, #14–15)."

The practice of subsidiarity reflects the idea that getting optimal results requires the best possible employment of human talents, which depends on personal initiative, creativity, and development. Subsidiarity also recognizes that decisions generally require participation by people close to the situation, and that those directly affected by a decision (including investors, employees, suppliers, and customers) likely have insights to share and deserve to be heard. The practical notion behind solidarity and subsidiarity is not 'altruism,' but rather about bringing about *harmony* between our own private interests and the interests of others, such that people will freely choose (rather than are forced or manipulated) to cooperate with others and contribute to their shared purpose. Without forgetting the fact of our brokenness, subsidiarity means that the pursuit of individual self-interest is directed toward cooperative relationships of solidarity that provide mutual benefits (see John Paul II 1991, #25).

The aim is towards harmony that both allows room for human freedom (the 'wellsprings of initiative and creativity') and is directed toward shared value in cooperative relationships (i.e., solidarity). With good corporate governance, it is in the manager's 'self-interest' to use his prestige and power primarily to help others to better contribute to the firm. Subsidiarity facilitates specialization and thus division of labor without losing sight of the shared purpose of the corporation and the need for collaboration in solidarity.

The Main Complicating Factor: Our Human Brokenness

Both agency theory and Christian anthropology are quite conscious of our human brokenness. Next to economic limitations discussed in Sect. 2, any human activity will be

subject to the 'limitations' from human frailty or brokenness. As explained by Williamson (1988), we humans have

> "bounded rationality and are given to opportunism. Bounded rationality is defined as behavior that is 'intendedly rational, but only limitedly so', and opportunism is self-interest seeking with guile. … H.L.A. Hart's remarks help to put opportunism in perspective: … Neither understanding of long-term interest, nor the strength or goodness of will … are shared by all men alike. All are tempted at times to prefer their own immediate interests. … 'Sanctions' are … required not as the normal motivate for obedience, but as a guarantee that those who would voluntarily obey shall not be sacrificed by those who would not."[5]

Our brokenness has far-reaching consequences. If we have 'bounded rationality and are given to opportunism,' then we often do not know what is good for us, i.e., we do not understand our actual 'long-term interest' and may choose opportunistically to harm others even if we understand that harm. Moreover, even if we both understand and do not want that certain actions may harm others, our lack of 'strength of will' means that we lack virtues such as self-discipline (temperance) to avoid acting in a harmful way, or that we lack courage to face obstacles in avoiding harm.

In agency theory, it is exactly our human brokenness that gives rise to the managerial moral hazard problem. However, while both agency theory and CST agree with our human brokenness, these views diverge as well. A central message of Christianity is that our brokenness can be transformed by God's freely given and unmerited help (i.e., grace, given to us through our relationship with the Son of God, Jesus Christ), i.e., that we can grow in skill and moral virtue by the grace of God. Agency theory is naturally secular and focuses primarily on 'sanctions,' i.e., market-based solutions like ex-ante incentives and 'ex-post settling up' or firing.

A central argument in this paper is that the market-*only* solutions proposed by agency theory are insufficient and may sometimes have (unintendedly or not) unethical consequences. This is more likely in cases where human frailty (i.e., limited understanding of our true long-term interest, limited goodness, and limited virtue such as strength of will) makes unethical behavior more likely, namely in circumstances (i) where people more easily rationalize or do not fully understand abuses of their superior information, power, or control, (ii) where people lack empathy with others or define their self-interest overly narrowly or individually (i.e., selfishly), and (iii) where ample opportunity arises. Each of these three in turn seems more likely in corporations where limits on information, contracting, and competition are more severe and the market mechanism least protects against abuses, and thus corporate governance becomes most important. And thus it is exactly here that these three pillars of CST may be most relevant.

Three Functions of Corporate Governance in Light of Christian Anthropology

In this section, I consider how the three discussed pillars of CST matter to corporate governance. I formulate three functions of corporate governance, corresponding to the three implications derived earlier, namely corporate governance as a compass, a commitment device, and establishing ex-ante criteria for excellence. What compass values, commitments, and criteria of excellence to employ in corporate governance depends on our view of the human person, i.e., on human anthropology. Our conception of the human person informs our compass values (e.g., what corporate products and services actually contribute toward human flourishing, and even more basically, what human flourishing actually consists of), what our commitments are (i.e., what social responsibility means for how to treat others) and what constitutes excellence (i.e., what does human flourishing consist of).

Once the firm is recognized as a social organization that operates in a market environment but within which the market mechanism itself is to some extent suspended—functioning as an "island of conscious power in this ocean of unconscious co-operation" (Coase 1937, as cited in Rajan and Zingales 1998, p. 387)—the role of power within the corporation is no longer purely an agency cost as in Jensen and Meckling (1976). Rather, as explained by Rajan and Zingales (1998), the positive role of power within the corporation is to coordinate the various stakeholders toward a particular shared goal, where the various economic limitations imply that those in control of the corporation cannot be fully guided by the price mechanism or 'the market.' As a consequence, the first and main role of corporate governance is to provide a compass, which consists of the set of principles and values that the firm's strategy is judged by (rather than the other way around), that helps the board and top management set priorities, and that can be used to decide on any tradeoffs between different stakeholder groups.

As suggested by CST, the compass function is to ensure that the corporation contributes to human flourishing for everyone who is affected by the corporation, where the most important aspect of the corporation is that it is done by, with, and for people. A business corporation can thus be defined as a *community of persons working together in*

[5] The first part is from Williamson (1988) on page 569, the second from footnote 3 at the bottom of page 569.

cooperative business relationships toward the shared purpose of contributing to human flourishing. This definition builds on the three discussed pillars of CST, which pillars present the basic content that the corporate compass should point toward: (1) on human dignity in its emphasis on being a *community of persons*, where our common human nature provides the basis for a shared purpose (or 'common good') of human flourishing, (2) the priority of solidarity that is necessary for good *cooperation*, and (3) the role of subsidiarity in *business*, in deciding the practical aspects of where to help each other within the community versus allowing market discipline to work. In turn, the three pillars are informed by Christian anthropology, i.e., by the Christian view of the human person, as briefly discussed. Accordingly,

> "The purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society (John Paul II 1991, #35)."

As Abela (2001, p. 111) explains,

> "*Centesimus Annus* endorses the importance of profit as one aspect of the purpose of business (#34, 35). However, this endorsement is clearly qualified, so that profit is not the most important aspect of the firm's purpose; in fact at most it is only equal to the other aspects of the purpose of the firm. *Centesimus Annus* #35 states that 'other human and moral factors must also be considered [besides profit] which, in the long term, are at least equally important for the life of a business'."

CST can be understood as informing the values to judge the corporate strategy by, jointly ensuring that business is placed

> "at the service of human freedom in its totality … [1.] if it serves useful work: … [i.e., if it helps] to provide for the needs of his family, his community, his nation, and ultimately all humanity, [2. if one] collaborates in the work of his fellow employees, as well as in the work of suppliers and in the customers' use of goods, in a progressively expanding chain of solidarity, … [3. where ultimately we can] fulfill [our]self by using his intelligence and freedom (John Paul II 1991, #43)."

As a result, the compass function involves a view on (1) what 'useful' work consists of that fulfills actual human 'needs' (as opposed to 'wants' that harm) based on a view of the human person, (2) with a focus on the value of cooperative relationships of solidarity, and (3) where each individual has the freedom and opportunity to 'fulfill' herself in subsidiarity. Each of these is hard to measure, and a detailed discussion goes far beyond the scope of this article, so I will thus only give a brief sketch here. On (1), quoting again from Abela (2001, p. 111),

> "*Centesimus Annus* #36 asks that companies be selective about the kinds of goods or services they produce and offer for sale. Decision-makers in the firm have a responsibility to determine whether the types of demand they are serving are indeed good for consumers. … In particular, *Centesimus Annus* attempts, following *Rerum Novarum*, to promote a holistic view of human life, including the psychological and spiritual dimensions of the person, and thus argues that firms should refrain from contributing, in their product and communication choices, to the excessively materialistic view of human life which is presented in much of contemporary marketing."

It may again be easier to recognize deficiencies, including in the extent to which cooperation involves solidarity and the corporation practices subsidiarity toward integral human development, such as cases where a lack of solidarity means that some people benefit at the expense of others, or a lack of subsidiarity exists in situations where people work in "a system of excessive bureaucratic centralization (John Paul II 1981, #15)".

In principle, the basis compass requirement of advancing human flourishing is 'disproportionate': *even* if the economic benefits may be large that does not justify means that gravely harm others. This disproportionality is based on our inalienable dignity as human persons, giving rise to both our rights and duty to respect the dignity of others. As the notion of disproportionality may raise concerns about absolutism, it is important to note that CST strongly affirms the need to respect the freedom of others, recognizing the danger of imposing on others (while also insisting that the nature and transcendent dignity of the person are given, see John Paul II 1991, #46). [6]

At the same time, our brokenness requires a humble admission that our own particular view may be incomplete, including our view on what human flourishing consists of, on what actually harms us and other persons, and on what

[6] (Centesimus Annus #46) "Nor does the Church close her eyes to the danger of fanaticism or fundamentalism who, in the name of an ideology which purports to be scientific or religious, claim the right to impose on others their own concept of what is true and good. Christian truth is not of this kind. [I]t is not an ideology… the Christian faith does not presume to imprison changing socio-political realities in a rigid schema, and it recognizes that human life is realized in history in conditions that are diverse and imperfect. … [I]n constantly reaffirming the transcendent dignity of the person, the Church's method is always that of respect for freedom."

true freedom actually entails. Therefore, we may benefit from the wisdom of the Christian tradition as developed over time. This tradition not only declares that human flourishing naturally includes satisfying basic material and social needs, but also has a critical spiritual dimension encompassing our relationships (communion with God through our relationship with Jesus Christ and with others), values (moral rights and duties), and virtues (especially the theological virtues of faith, love, and hope). Our brokenness also means that whatever moral rules bind us, there will be times in which we will fail to live according to those ethical rules. The realization of this (overcoming our 'self-confirmation bias') may lead to either (i) a cynicism about any ethical rules, to (ii) a gradual relaxation of these rules or applying them only to others rather than ourselves, or, alternatively, to (iii) a humble realization of our dependence on God and our interdependence on others, by the grace of God—that we need help with seeing, judging, and acting according to a *true* compass of values and live with virtue, i.e., a *conversion*.

At the beginning of his pontificate, Pope Francis addressed this issue as follows:

> "[T]here is another form of poverty. It is the spiritual poverty of our time, which afflicts the so-called richer countries particularly seriously. It is what my much-loved predecessor, Benedict XVI, called the 'tyranny of relativism', which makes everyone his own criterion and endangers the coexistence of peoples. And that brings me to a second reason for my name. Francis of Assisi tells us we should work to build peace. But there is no true peace without truth! There cannot be true peace if everyone is his own criterion, if everyone can always claim exclusively his own rights, without at the same time caring for the good of others, of everyone, *on the basis of the nature that unites every human being on this earth* [my emphasis]."[7]

The commitment function of corporate governance is to provide mechanisms to commit the corporate resources (including corporate positions of power and privileges) toward solidarity, allowing everyone in the corporation to cooperate in mutually beneficial relationships toward a shared goal (see Porter and Kramer 2011). I tried to explain the basis of the moral requirement of solidarity itself in Sect. 3.1, and its economic necessity in Sect. 2.3. To briefly recap, Coase (1937) reasoned that the diversity among private goals combined with the need to cooperate creates the need for coordination toward a shared (common) good and thus the need for hierarchies of corporate control. The primary difference between corporations and markets is exactly this: corporations require explicit coordination toward a cooperative, shared purpose, while once embedded in an environment with transparent and enforced rules, markets can largely be led by 'the invisible hand.'

In effect, cooperation requires coordination: some system of corporate hierarchy and control—corporate governance—which comes with a set of positions, powers and privileges. The economic purpose of coordination is to create a commitment toward cooperation, as explained by Williamson (1988, p. 569):

> "These two behavioral assumptions [i.e., bounded rationality and opportunism] support the following compact statement of the purpose of economic organization: craft governance structures that economize on bounded rationality while simultaneously safeguarding the transactions in question against the hazards of opportunism. A Hobbesian war of 'all against all' is *not* implied. *Crafting 'credible commitments' is more nearly the message* [our emphasis]."

Value creation in firms requires cooperation among many different individuals, such as suppliers, employees, and customers, who are required to make firm-specific investments. The ex-ante commitment required is toward being socially responsible toward everyone else involved in the corporation, i.e., to commit to solidarity and create trust. Employees, shareholders, bondholders, suppliers, and customers need to trust the board to make decisions that are in their long-term interests. If that trust is lacking, people will either require a higher cost for their participation or they will not make the same level of firm-specific investments (including not putting in the same effort)—especially if these investments have limited value outside of their relationship with the corporation. To establish and maintain trust, directors need to show that they understand and value the contribution of all of the stakeholders to the cooperative goods, that they will be committed to and accountable for the ex-ante promises made (implicitly or explicitly) to the various stakeholders, and that they will be sufficiently transparent about their actions and to consult the stakeholders in the process.

Such commitments need to be mutual, as shareholders themselves may benefit from e.g., takeovers at the expense of other stakeholders. As a result, reducing the ex-ante likelihood of takeovers *with shareholder support* gives other stakeholders such as directors, managers, employees, large customers, and suppliers a stronger incentive to make longer-term firm-specific investments (see, e.g., Cremers et al. 2008), which Johnson et al. (2015), Cremers et al. (2015) and Cremers et al. (2016) find is associated with *higher* rather than lower shareholder value.

[7] See http://w2.vatican.va/content/francesco/en/speeches/2013/march/documents/papa-francesco_20130322_corpo-diplomatico.html.

Solidarity involves a willingness to make others' priorities also your own to protect both common and individual interests. This is rational based on our social nature and our interdependence in how each person contributes to the firm. Our interdependence in corporate relationships requires trust, which requires a social cohesion that goes beyond the 'principle of the equivalence in value of exchanged goods' that governs the 'economy of exchange', i.e., the market. In a market transaction, both sides can benefit through the exchange of goods, where in well-functioning markets the price is such that both sides receive something of approximately equal market value, to which their personal preferences attach a higher private value. However, in longer-term cooperative and committed relationships, what is 'exchanged' is not a particular thing but oneself (or a commitment of oneself) toward a common purpose in an 'economy of common union' (communion). This 'gift of self' involves an interpersonal exchange of complementary personal gifts—cooperation in shared agency.

Because the value created through this exchange is intrinsically interdependent, and there is no 'market price' set for each particular contribution toward the cooperative good, cooperation is inherently characterized by an 'incomplete contract.' Without a complete contract that specifies the mutual rights and duties, mutual trust is required that others also give without (only) taking at one's own expense. Interdependence (or complementarity) with incomplete contracting means that in cooperation, one cannot generally insist making one's own cooperation conditional on the extent of the others' simultaneous cooperation, but instead requires unconditional gifts and ex-ante commitment.

The interpersonal exchange of complementary gifts also means that there is specialization within the nexus of cooperative relationships, and with specialization comes, inherently, asymmetric information. Each person knows best primarily about their specific environment and contribution. The combined triad of interdependence in shared agency, incomplete contracts, and asymmetric information means that cooperation requires a mutual commitment to share each other's priorities, especially in circumstances where the complementarity is stronger, where the contractual nature of the relationship is more incomplete, and the contributions required are more relationship-specific (and thus worth less in the 'market' or outside of the corporate relationship than inside), and where asymmetric information is more prevalent.

What seems more important than the specific commitment devices used is that the people entering into commitments recognize their social responsibility and are animated by what pope Benedict XVI (2009, #36–39) called the 'logic of gift' and tried

> "to demonstrate … not only that traditional principles of social ethics like transparency, honesty and responsibility cannot be ignored or attenuated, but also 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. This is a human demand at the present time, but it is also demanded by economic logic. It is a demand both of charity and of truth. … The market of gratuitousness does not exist, and attitudes of gratuitousness cannot be established by law. Yet both the market and politics need individuals who are open to reciprocal gift."

The *criteria* function is to define what, in practice, constitutes excellence for the corporation's contributions to human flourishing, for its internal organization in solidarity, and for personal development and performance in subsidiarity. In general, CST proposes that the three theological virtues together with the four cardinal virtues provide the basic criteria for excellence (see Pieper 1966, 1997). A detailed analysis of what constitutes excellence is beyond the scope of this article, so I will only briefly speculate regarding the virtue of justice applied to the firm's participation in external markets and to its internal organization. Importantly, setting criteria for excellence based on virtues can encompass the main criteria implied by standard agency theory (which focuses on creating financial value through reducing managerial opportunism), as managerial self-dealing can be interpreted as a special case of injustice, but without its reductionism. If financial value is considered as the *only* (or the primary) criterion by which to evaluate corporate actions, then this may lead to insufficient attention to the creation of other (i.e., non-financial) value, or to *how* financial value is created. As I argued above, especially in cases with asymmetric information, unequal power and differences in control (or limited competition), there is significant scope for the abuse of superior information, power and control in ways not limited to managerial self-dealing.

Externally, the firm's participation in the product and financial markets seems to relate most directly to commutative justice (i.e., justice-in-exchange). Fairness in markets means providing sufficient and accurate information, not abusing power to externalize costs onto others (as in causing pollution) and not undermining competition (through e.g., 'crony capitalism'). Commutative justice in markets means that both sides of any transactions benefit in such a way that each receives something of (approximately) equal market value.

Internal corporate governance mechanisms pertain to the corporation as a social organization, and thus seem to relate especially to distributive justice in solidarity. This implies a

certain proportional balancing of the interests of different stakeholders, geared toward the shared purpose of the corporation. Distributive justice for investors means that corporate resources are used to increase the long-term financial value of the firm. Otherwise, if the firm would invest 'free' (or surplus) cash flows—i.e., profits not needed for existing projects or what is available after the firm has fulfilled its obligations to existing stakeholders—in new projects where the firm would expect to not earn the investors' required rate of return, it presumably does so against investor interests but at the benefit of some other stakeholders, which would violate distributive justice. Therefore, if no good new internal investments are available, the firm should pay out the 'free' cash flows to the investors.

The various judgments necessary here—on internal investment opportunities, their expected return and risk, the investors' required rate of return and risk tolerance, what are 'free' cash flows, etc.—are hard to verify by outsiders and thus require that top executives exhibit the cardinal virtues of prudence, justice, temperance, and courage. Distributive justice would also mean that investors only benefit when everyone else involved with the corporation also benefits (for example, in proportion to their contributions to the overall creation of value), avoiding situations where e.g., shareholders benefit at the expense of others such as employees and bondholders (violating proportionality and thereby distributive justice).

Conclusion

In this article, I aimed to show that the mainstream approach to corporate governance, 'standard' agency theory as exemplified by Jensen and Meckling (1976), is overly reductionist. In particular, I argued that the standard agency theory insufficiently accounts for economic limitations inherent in corporations (for asymmetric information; for contract completeness; and for the need for coordination through explicit power or hierarchies) as well as for human limitations (bounded rationality, opportunism, and behaviorism). More generally, the reductionism in the currently standard approach in how business and law schools primarily teach business (law) often sets up an unnecessarily sharp conflict with business ethics, corporate social responsibility, and sustainability. CST aims to integrate, rather than separate, morality, and business.

I considered what insights Catholic Social Teaching (CST) can provide to corporate governance. Specifically, I briefly reviewed three main pillars of CST—human dignity, solidarity, and subsidiarity, based on Christian anthropology—and then shared my reflections on what these could mean for three functions of corporate governance. The *compass* function is to provide the set of values to guide the firm's strategy toward its contributions to human flourishing. The *commitment* function involves the coordination (the 'binding') toward cooperation with all stakeholders in solidarity. The *criteria* function is to define what constitutes excellence in the firm's practice both regarding external markets and internal performance.

Finally, where does the juxtaposition of standard agency theory and CST leave us? On the one hand, how can agency theory be adapted and become less reductionist? In other words, how can agency theory incorporate both these economic limitations and the human limitations? To me, starting points would be a critical engagement with the 'new institutional economics' (see, e.g., Williamson 2000), work exploring 'new foundations' of and the role of culture in corporate finance (see, e.g., Zingales 2000, 2015a, b) and 'new behavioral economics' such as theory explicitly incorporating limited cognition, social preferences, dignity, responsibility, and solidarity (see, e.g., Tirole 2009; Bénabou and Tirole 2003, 2006, 2010, 2011). On the other, if one would want to integrate business and CST, which insights from agency theory should be maintained? This question is easier to answer: none of the genuine insights from agency theory (such as e.g., regarding the importance of conflicts of interests, incentives, and efficiency arising from competitive markets) should be lost; rather, what may perhaps not be any great 'loss' is the reductionist view in finance that these insights *alone* are sufficient.

Acknowledgment I am indebted to many people for insightful conversations, feedback, and helpful reading recommendations, especially to two anonymous reviewers, David Lutz, Domènec Mele (the editor), Lloyd Sandelands, Martin Schlag, and seminar participants at IESE Business School, the University of Notre Dame, Ave Maria University, Arizona State, Villanova, and Northwestern University School of Law. I remain solely responsible for any errors.

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