Economy of Mutuality: Equipping the Executive Mindset for Sustainable Business

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Introduction

Market economy (Gregory and Stuart 2004, pp. 25–27) is the orthodox frame of reference for many businesses, dictating how business has traditionally been, and still is, taught in executive business education. A market economy frame of reference drives mainstream corporate strategy. It sets the stage for how business activity is understood and valued by executives, managers, and numerous other stakeholders in private and public institutions alike.

Social economy, by contrast, encompasses cooperatives, mutual societies, non-profit organizations and foundations. The social economy frame of reference recognizes economic sectors based upon charities and collective not-for-profit initiatives (Mook et al. 2007, p. 17).

Yet the moral crisis underneath global economic collapse, heightened mistrust of market capitalism, patterns of unsustainability, excessive consumerism, inequality and social unrest occurring alongside of a rising interest in social enterprise, solidarity, and global justice suggest it is time to rethink the conventional market economy/social economy divide.

Numerous businesses traditionally following a short-term shareholder wealth maximization approach are rethinking the relationship between financial performance, sustainability, and social responsibility. Today, companies stand in need of embracing shifting social expectations about the purpose of business, and some leaders are reconsidering the implications of these shifts for corporate strategy. More and more, leaders and managers are cultivating new skillsets together with a deepened understanding of social needs and an enhanced appreciation of the ultimate nature and purpose of business and the real foundations of economic value.

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As well, firms are being challenged to cultivate new ways of collaborating across the profit-nonprofit divide as traditional boundaries become blurred by new forms of enterprise exemplifying features from both market economy and social economy (Dees 1998; Boyd et al. 2009; Billis 2010). Behind this hybridization of business enterprises is a blending of a commercial exchange logic, characteristic of the for-profit sector, with a gift logic typified by the nonprofit sector. Whereas the logic of commercial exchange is conventionally driven by principles of profit maximization, mutual gains, and the pursuit of financial sustainability, the logic of gift is conventionally driven by principles of charity, solidarity, and the pursuit of social sustainability. Accordingly, this chapter presents *economy of mutuality,*[1] as a conceptual blueprint for business leadership oriented to merging financial and social sustainability.

The chapter is structured as follows. First the idea of economy of mutuality is introduced. Second a schema categorizes business enterprises under the umbrellas of for-profit enterprise, social enterprise, and nonprofit enterprise (see Diagram 15.1). Then, three levels of business ends are distinguished: (1) the proximate end; (2) a higher pro-social end; (3) the highest end-state. Fourth, an ends-oriented analysis of the archetypes is given. The proximate end, considered in the context of an archetype-specific inquiry, reveals the respective aims of separate genres of business enterprises: for-profit enterprises, social enterprises, and non-profit enterprises. The pro-social end aims higher, considering the nature and purpose of business not just from an economic standpoint but from a social point of view. At this level principles of mutual benefit, shared value and gratuitousness are identified as embedded across archetypes in varying degrees. Finally, the question of what the highest end-state of business is, or ought to be, is explored through a discussion of five key ideas: social solidarity and interdependence, cultural capital, *homo reciprocans,* common good, and virtue. This analysis supports the proposition that the ultimate end-state of business is to advance reciprocity and integral human development.

Economy of Mutuality

Economy of mutuality envisions a new understanding of business enterprise, challenging the assumption that the chief purpose of business is to maximize profit (Duska 1997; Handy 2002, p. 51).

Not only does this unproven assumption hoodwink countless economists, business leaders, and laypeople, it stifles deeper discussion about the authentic purpose

[1] The concept should not to be confused with the John Kay's notion of "economics of mutuality" (Kay 1991). Some ideas in this chapter originated in a paper delivered at a workshop entitled "Teleology and Reason in Economic and Social Affairs," conducted at Blackfriars Hall, University of Oxford in 2014. Parts of the argument are developed further in my article "Economy of Mutuality: Merging Financial and Social Sustainability," 133(3) *Journal of Business Ethics,* 499–517 (2016).

of business. On the contrary, economy of mutuality, while ceding the significance of profit as a success indicator, posits that from the standpoint of global sustainability, the pursuit of profit is at the service of a higher purpose.

Broadly speaking, economy of mutuality fits within streams of research comprehending economic life as multilayered and occurring in various structures – social, legal, political, cultural – that together form a more complex whole (Kropotkin 1902/2009; Polanyi 1944/2001; Hirst 1994; Nee and Swedberg 2005; Buğra and Arğatan 2007; Heinberg 2011). Economy of mutuality draws upon virtue ethics, linking it to classical and neoclassical economic writings, and extending it to contemporary trends in global business (such as microfinance and social enterprises) springing from a sustainability paradigm (Daly and Cobb 1990; Wals 2007) and seeking to merge financial and social imperatives of business (Paine 2003). Economy of mutuality sees businesses as contributors to integral human development, mutuality, and reciprocity.

Market transactions are based on an exchange of equivalents, whether in the form of barter or money. Yet business is not reducible to a system of market exchanges, but flourishes in a wider social context. So economy of mutuality provides breathing space within and alongside the market for economic activity conducted by participants freely choosing to act from motivations other than pure profit-taking, still creating economic value in the process.

Markets have the important task of enabling persons to deploy contracts in regulating their relations as they exchange goods and service of equivalent value between them. This is clearly a vital step towards satisfying many needs and desires of market participants. But markets as such are often disengaged from society. Market-based decisions are not motivated or constrained directly by social custom and legal strictures, not to say ethical norms, and even less, virtue and the common good.

Therefore, economy of mutuality sets forth rudiments for a new way of understanding business: rethinking not only the higher purpose of enterprise, but also reflecting upon how business contributes to (or takes away from) the common good of the society in which it is engaged.

A possible objection might question the need for such an approach, asserting a stakeholder approach (Phillips 1997; Freeman et al. 2010) will bring about the right balance between business and society. But stakeholder thinking is flawed in accepting at face value the interests and claims of various stakeholder groups independently—in isolation from one another—without considering their deeper connections as part of the larger human community. So unless situated in a comprehensive view of humanity, stakeholder thinking runs the risk of neglecting to regard each stakeholder as a person that has, not simply external material and instinctive dimensions, but interior and spiritual dimensions as well. (Goodpaster 2011, p. 13).

Reconsidering the End State of Business

Consistent with the spirit of Aristotle's inquiry (Aristotle 1941) about the ultimate purpose of human life, we may ask: What is the end-state of business activity? (Abela 2001; Solomon 2004). Is there some characteristic end or purpose or *raison d'être* of conducting business? What, in general, does business do that is the most valuable?

First we need to be clear about what we understand business to be. To gain clarity, we can look at fundamental archtypes of business along with proximate ends associated with them. In penetrating further to specify their respective higher ends, we will continue to heed the conventional categories established by the archetypes (i.e. for-profit vs. non-profit; financial value vs. social value). But later, in directing attention toward discernment of the ultimate end, or *telos*, we will, consistent with a holistic approach, witness an erosion of traditional categorizations to some extent.

Business Archetypes

Consider a triad of business archetypes in which alternative emphasis goes to elements of profitability and financial independence (market economy) on one hand, and poverty alleviation and solidarity (social economy) on the other.

Archetype 1. Business enterprises are run mainly as for-profit institutions to the end of being financially sustainable in the long term. Financial self-reliance is a precondition of a firm's survival and for remaining capable of continuously expanding its products or services to new clientele. Important as a company's social mission may be, it is sublimated to profit-making capabilities to ensure the firm serves the interests of its shareholders.

Archetype 2. The social and financial missions of business enterprises are merged; a coordination of social and financial functions is at the heart of the "promise" of the company as a sustainable enterprise. To be sure, a business firm has a fundamentally economic character. Accordingly, reasonable efficiency in its management is expected: covering operational costs and realizing some form of added value, surplus or profit. On the other hand the sustainability paradigm for business emerging over the past several decades presupposes that companies are expected to uphold and even champion social policies. Nevertheless, while the pursuit sustainability presents special challenges for businesses, there is no necessary or incompatibility between the joint pursuit of social and financial objectives.

Archetype 3. Businesses (such as some microfinance institutions and the Economy of Communion project) are run with principal allegiance to social missions – such as outreach to the poor, environmental production and promoting other facets of sustainability. The moral justification for business requires staunch commitment to doing good. Profit is necessary and explicitly intended as a condition to keep doing good. The social outreach objective ought not to be imperiled by the sort of corruptive tendencies that sometimes attend market-driven business activities, as seen for instance, in instances of mission drift, exorbitant interest rates, and group lending abuses that involve microfinance institutions exploiting indigent people to increase profitability.[2]

The above archetypes express divergent ways of understanding alternative generic strategic directions for individual business enterprises. For instance, Archetype 1 represents the strategic orientation of a traditional profit-maximizing corporation such as GE or IBM in the 1970s. Archetype 2, by contrast, expresses the current strategic direction of a sustainability oriented firm such as Google.org or Timberland. Archetype 3 captures the strategic direction of enterprises such as Grameen Bank and *Focolare*-inspired organizations.

The first of these archetypes is sometimes been held up as the model or ideal for the nature and purpose of business as such. However, today even some profit-maximizing multinational firms are seeking to demonstrate that they can spread value and profits more broadly across their stakeholders and supply chain. More importantly, holding up only one of these archetypes – the for-profit model – as an embodiment of the exclusive or dominant end-point of business is a conceptual error. The mistake consists of falsely attributing goals or ends of specific kinds of business enterprises to the goal or end of business life in general. It is more perspicacious to launch one's inquiry with the full spectrum of business enterprises at one's disposal – across for-profit, social enterprise, and non-profit varieties – and then inquire as to how best to account for their shared nature and purpose. It is beneficial for us to question and debate what business really is, and ought to be, about. Proceeding from such a broadened outlook, economy of mutuality is posited as a moral-economic conception of preconditions of sustainable and inclusive business (Diagram 15.1).

End-Point Examination of Business Archetypes

For purposes of this chapter, a distinction is made between the proximate end, higher end, and ultimate end-state of business enterprise. By proximate end is meant an immediate purpose of conducting business, as understood within the particular archetype at hand. Here, identifying the immediate purpose of business helps to characterize the archetype, and is taken in a more specific and concrete sense than the purpose revealed in the higher end. But this higher end remains subordinate to yet another end, which is the absolute last end, one "for the sake of which all other

[2] *Mission drift.* Commercially-oriented microfinance institutions (MFIs) are sometimes identified as drifting away from an original mission of serving low-income clients, instead serving better-off clients to improve the financial bottom line (Armendariz and Szafarz 2011). An ethical issue arises insofar as such MFIs are found to be using poor clients mainly as a means to attaining profitability (Sandberg 2012). *Excessively high interest rates.* Interest rates charged by some MFIs can range between 20% and 70% per annum, making them higher than rates commanded by commercial banks (Rosenberg et al. 2009; Sandberg 2012). *Group lending abuses.* Violent collection practices and oppressive forms of group pressure are sometimes used by MFIs for obtaining repayment of group loans (Montgomery 1996; Ghate 2007).

Diagram 15.1 Enterprise analysis and design

Social economy			Market economy				
Charities/ non-profit enterprises	Hybrid social enterprises						Traditional for-profit enterprises
Pure not-for-profit goal	Non-profit with trading/ business activity as part of delivery model	Organization working toward financial sustainability (some grants)	Breakeven—all revenues from trading activities	Profits made, but not distributed back into mission	Profits made and (some) distributed to investors; profits likely to be lower due to social mission	Commercial, competitive, and profit maximizing; social value proposition built into business model	Profit- making goal for end of financial sustainability
Full subsidy	Partial subsidy		Trade-offs			Profit-maximizing	

things are desired, and which is not itself desired for the sake of anything else." (Aquinas 1273/1972, 1–2, q. 2, a. 8, c).

In terms of how the triad of archetypes has already been specified, it is seen that the proximate end of archetype 1 is profitmaking with an eye toward financial sustainability. The proximate end of archetype 2 is hybrid development pursued through a merging of financial and social objectives. The proximate end of archtype 3 is alleviation of poverty through social outreach. It is possible, as will be shown, to discern for each archetype a higher end.

For-Profits

Concerning for-profit, market-based enterprise, reflective economists provide a range of interpretations. For example, Friedman (1962, p. 13) states that "the technique of the market place" is "voluntary cooperation of individuals." Similarly, Buchanan and Tullock (1962, p. 103) assert that "[t]he raison d'être of market exchange is the expectation of mutual gains." What can be discerned in these accounts, along with those of countless other economists, is the notion that markets and the enterprises operating within them have some general point or purpose, and it is the end of mutual benefit from commercial exchange.

To be sure, other economists have stressed how the market creates wealth by exploiting comparative advantage (Ricardo 1817), the division of knowledge (Hayek 1948), and increasing returns to scale (Marshall 1920). Yet all such wealth-producing mechanisms function through mutual benefits arising from activities of trade.

A critic might say that the higher end of market-based, for-profit enterprise is attaining economic freedom. After all, a coupling of the market economy and freedom is a recurring theme in economics literature. Its advocates include Mill (1852), Hayek (1948), and Friedman (1962). But this criticism is misleading. It mistakenly takes economic freedom as the liberty of everyone to get at all of what they want, period. But economic freedom is better understood as the freedom to use one's own possessions and talents as one sees fit, remaining free to trade – under conditions of reciprocity – with those willing to trade in return.

The common core of these understandings is captured by the logic of commercial exchange. For-profit business in a market economy is aimed at the efficient facilitation of mutually beneficial voluntary transactions. Market economy commercial transactions are seen as valuable because individuals want to make them. Business transactions satisfy individuals' preferences not only because such transaction are wealth-creating, but also because the opportunity to make commercial transactions is a form of freedom. So beyond the proximate end of profitability for financial sustainability, we see the higher end of archetype 1 enterprise to be the principle of mutual benefit.

An illustration of how an archetype 1 business might go about incorporating the concept of mutuality concretely, even without having a formal mutuality configuration, is provided by the food and beverage company Mars. In the process of tracing the origins of its supply chain back to 150,000 impoverished cocoa farmers, Mars determined that it had a responsibility to share the fruits of its worldwide financial success with all those involved in its business. Accordingly, the company invested in new technology for cocoa growers that transfigured their way of life. The average cocoa yield tripled, along with associated average incomes. Consequently Mars gained access to more cocoa. Mars launched another mutuality project in Kenya, investigating how people from the poorest communities in Nairobi might be included in the company's distribution and supply chain. A key objective is for Kenyans to access employment and gain entrepreneurial skills. Kenyan youth, it is projected, will benefit as they are able to make income as a local distributor. Mars will benefit, in turn, because their products are marketed and distributed to new communities. Such mutuality initiatives comprise part of a joint research project between Mars and the Said Business School of Oxford University. By thus pairing up with Mars, academics at Said are exploring ways that a for-profit business can in effect be a mutual organization, yet without directly sharing ownership (Fearn 2014).

Hybrid Enterprises

While hybrids ordinarily work within a market economy by operating a business, their ends are not exclusively financial. Their principal duty extends beyond advancing shareholder interests. Their end is both to succeed (financial sustainability) and to do good for the community (social sustainability). Accordingly, the hybrid enterprise represents a helpful structure with which to meet the needs of business organizations with wider pro-social purposes (Sertial 2012, p. 271.)

Although the exact structure varies among firms, the hybrid archetype ordinarily links the goals of a for-profit corporation and a nonprofit charity. One illustration of a well-known social enterprise is Google.org, a for-profit company also dedicated to social benefit. Google.com funded Google.org with a grant of three million shares, pledging to contribute 1% of its annual profits to Google.org. A notable feature of Google.org is that, in addition to funding grants to support social causes, it makes for-profit investments, encouraging employees to participate directly in furthering changes in company policy. While elements of Google.org's structure may vary from those of other hybrids, it stands as a noteworthy example of a for-profit enterprise that assumes an explicit pro-social posture.

Further inquiry into the higher end of archetype 2 enterprises may be undertaken by reference to emerging models such as Mohammad Yunus' social enterprise (Yunus 2007, 2011) and Michael Porter and Mark Kramer's shared value (Porter and Kramer 2011).

Social Enterprise

According to Yunus, a social business is “a non-loss, nondividend enterprise, created with the intention to do good to people, to bring positive changes to the world, without any short-term expectation of making money out of it” (Yunus 2007, pp. 265–266). The social enterprise is a hybrid in the sense that it grows and develops as a commercial enterprise. While not intended to make profits for investors, it needs to generate enough income to cover its expenses, which includes providing adequate compensation for managers and employees. Yunus provides a description of the higher end of the social business:

> In its organizational structure, this new business is basically the same as the existing PMB [profit-maximizing business]. But it differs in its objectives. Like other businesses, it employs workers, creates goods or services, and provides these to customers for a price consistent with its objective. But its underlying objective—and the criterion by which it should be evaluated – is to create social benefits for those whose lives it touches (Yunus 2007, pp. 21–22).

Profits, understood as a surplus of revenues over expenses, are anticipated, yet not returned to investors in the form of dividends. As Yunus puts it:

> The company itself may earn a profit, but the investors who support it do not take any profits out of the company, except recouping an amount equivalent to their original investment, over a period of time. A social business is a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world (2007, pp. 22).

Yunus advocates a “total delinking from the old framework” of profit-maximization. (Yunus 2010, p. 14). What Yunus offers potential investors, who recoup funds invested while relinquishing a return on investment, is the chance to partake in the logic of gift.

Here the principle of gratuitiousness is at work: personal acts of donation creating relationships in which further exchanges of various sorts become possible (Faldetta 2011). Besides the Grameen Bank, Yunus and his associates have diversified into other social enterprises, partnering with companies like Groupe Danone, to market a yogurt product that aims to ameliorate nutritional deficiencies of poor children at an affordable price.

Yunus (2011, pp. 33–56) used the Grameen Bank’s expertise in social networking among rural poor to develop Grameen-Danone, an independent social business. Operating with a social enterprise archetype, Yunus shows how it is possible to go beyond conventional thinking about philanthropy and corporate social responsibility (CSR). Groupe Danone is not a donor, and is Grameen-Danone is not merely a CSR feature of the Groupe. The new company is independent and autonomous, yet with substantial investment and expertise put up by Groupe Danone. The partnership materialized thanks in large part to Yunus’ ability to persuade Group Danone’s management that they could not participate in solving social problems effectively within the framework of a traditional profit-maximizing enterprise.

Yunus believes that people who might be donors to various charities or supporters of CSR policies are drawn to investing in social businesses, provided they are well designed and managed to produce and distribute social benefits more efficiently than conventional alternatives.

Shared Value

Porter and Kramer urge bringing business and social good together to create shared value. Stressing that business, operating within the traditional capitalist paradigm, has forfeited social legitimacy, they propose reorienting capitalism to be aimed not exclusively toward corporate profits with bolted-on CSR, but instead at shared value between corporations and community. Currently business is mired in an outmoded approach that thinks of

> value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell? (Porter and Kramer 2011, p. 4).

The conclusion is that a radical alteration of perspective is needed to restore business legitimacy. Under the old model, business distinguished between profit and social responsibility. Shared value, by comparison, is about "creating economic value in a way that also creates value for society by addressing its needs and challenges" (Id. p. 64). The authors assert that, unlike corporate philanthropic efforts, this alternative approach "is not on the margin of what companies do, but at the center" (Id. p. 64). In contradistinction from CSR, shared value mandates that all of an enterprise's budget be dedicated to shared value. For it is within shared value that business converges with social needs. Since it brings about a positive impact on a community, shared value turns out to be good for the company as well.

Certainly significant changes need to come about to pave the way for shared value. Company leaders need to be capable of identifying social needs, and be equipped to work collaboratively with members of society toward ends within the scope of their shared interest. Enterprises with a commitment to shared value need to channel efforts at building economic value by creating social value. Some areas where shared value can be generated include: healthcare, adequate housing, better nutrition, assistance for aging populations, enhanced financial security, and environmental preservation (Id. p. 67).

Insofar as enterprises embarked upon creating shared value need to pinpoint social needs, benefits and harms relevant to their respective products, Porter and Kramer endorse creating clusters, "geographic concentrations of firms, related businesses, suppliers, services, providers and logistical infrastructure in a particular field such as IT in Silicon Valley, cut flowers in Kenya, and diamond cutting in Surat, India" (Id. p. 72). Cluster building improves company productivity, competitiveness, and innovation while enhancing the local community (Id. p. 72). As an illustration, Yara, a mineral fertilizer manufacturer, recognized that a dearth of infrastructure in many parts of Africa was an obstacle to farmers obtaining fertilizers and other farm products they need, as well as an impediment to getting crops to market. To address this need, they invested sixty million dollars to build agricultural growth corridors in Mozambique and Tanzania (Id. p. 74).

One way shared value operates is provided by the case of m-pesa, a mobile banking system Safaricom introduced into Kenya. M-pesa enabled Kenyans to transact financial services via cell phones. The phones reduced risks of carrying and storing cash, which customers turned into e-money. Spouses working at a distance could transmit money home over the phones, reducing transportation expenses. With the arrival of m-pesa in Kenya, saving patterns ascended, and employment was invigorated when m-pesa agents were hired. Before m-pesa, large traditional banks neglected the poorer population, deeming it too risky and insufficiently profitable. The World Bank lauded m-pesa and Safaricom for investing in the indigent. A study reported that, as a result of the service, rural income rose 30% (Mbarathi 2011). The M-pesa initiatives exemplify the hydbrid economic logic behind shared value. Safaricom identified a niche within which to address social needs of the poor, resulting in amelioration of their lives, while simultaneously creating profit for the company.

In conclusion, in light of the predominance of hybrid economic logic in social businesses, the higher end of archetype 2 enterprise may be specified in terms of both the principle of shared value and the principle of gratuitousness.

Nonprofits

Let us turn to identifying the higher end of archetype 3 enterprise, the nonprofit charity. It may be noted that throughout Western civilization's history, one finds business ventures embodying humanitarian endeavors. Monasteries in the Middle Ages were incipient economic institutions. As far back as the fifteenth century, the Franciscans provided philanthropic impetus in the form of the *Monte di Pietà*, a precursor of the modern bank, which grew up not seeking profit, but bringing reform to usurious lending practices and providing charity to the impoverished (Menning 1993, p. 37). The public office extended moderate-rate loans to needy people. An underlying rationale was to benefit borrowers instead of providing profits for lenders, representing a lesser evil attached to traditional money lending. The *Monte di Pietà* was dependent upon funds collected from voluntary donations by the financially privileged having no intent to recoup their monetary contributions. Those in need came to the *Monte di Pietà*, contributing some item of value in exchange for the financial loan. The term of the loan extended for 1 year, representing approximately two-thirds of the borrower's item value. A pre-set interest rate applied to the loan. Any profits realized were applied to offset operating expenses.

As well, the nineteenth century provided for a merging of economic and humanitarian objectives as the bulk of European welfare establishments and hospitals emerged out of spiritual associations.

More recently, the Economy of Communion (EoC) project merits discussion as an enterprise launched in the spirit of this tradition of outreach to the poor. In addition to uniting people to advance social good and fostering a "culture of giving," the Economy of Communion (EoC) project has a peculiar approach to distributing profits Uelmen and Bruni (2006, pp. 647–648). Profits from an EoC enterprise are divided into three parts, within the discretion of the business. The first portion goes to the materially poor, often directly linked to *Focolare* networks. The second portion is kept in the firm for reinvestment. The third portion is used to sustain elements of infrastructure that promote and preserve a "culture of giving," which includes programs for education and formation to help people live according to its values. After the owner determines how much to reinvest in the company, the remainder of the profits can be equally divided between assisting those in need, and shaping activities for a culture of giving. To make sure that the needs of the materially poor in *Focolare* communities are met, profits from EoC enterprises have been supplemented by individual donations from *Focolare* members. This division of profits can be viewed as a useful archetype for businesses with a charitable purpose.

Notably, participation in the EoC and sharing profits is totally voluntary among shareholders and business owners. Neither group is legally bound to give a portion of their profits to the EoC. Instead, a decision to share profits comes from people internal to the business itself. Such a structure provides the for-profit with the freedom to participate in the EoC to whatever extent it wishes, without needing to conform to rigid guidelines. While this freedom provides for widespread ownership, extending an opportunity to join to many people, it could have a negative impact on shareholders by generating smaller dividends. Consequently, a majority of the shareholders must agree with the ideals of the *Focolare* and be willing to forgo these returns. Potentially this could mean that EoC and other hybrid enterprises following the model would experience difficulty operating as a publicly traded company, or operating in situations where management is separate from ownership. On the other hand, the growth of ethical investment funds within the stock market could provide a means of raising business capital in an EoC model. Alternatively, EoC enterprises could advocate for shareholders to relinquish dividends altogether, donating them to the EoC (Gold 2010, p. 40).

The EoC departs from standard business archetypes in four ways. First, pay structure is organized differently in the EoC model. Under the EoC, employers increase wages to reward employees for extra effort extended for the company, and to maximize efficiency of the enterprise. Second, the EoC involves special policies for recruitment. EoC companies, for instance, have as one goal the hiring of more employees and giving employees making mistakes a second chance. The EoC business reintegrates those facing difficulties into the work environment, yet balances this principle with maximizing efficiency maximization. Third, EoC companies use participative management, encouraging workers to participate in decision-making within the business. This might entail organizing councils, meetings, and other formal structures to stimulate communication between different levels of authority. Lasty, EoC enterprises are proactive in cultivating a spirit of solidarity within the enterprise, such as hosting events to increase social interaction among employees including their children as well (Gold 2010 p. 40).

In consideration of the major driving force of the logic of gift at play in charitable enterprise, the higher end of archetype 3 may be specified as the principle of gratuitousness.

To summarize, although on its face Archetype 1 is often taken to presuppose that business is all about maximizing profits for shareholders, we see that its higher end, in light of the logic of commercial exchange, is the principle of mutual benefit. Under Archetype 2, the higher end, in light of a hybrid economic logic, is the principle of creating shared value for a broader range of stakeholders, complemented by the principle of gratuitousness. For Archetype 3, the higher end relates to the logic of gift, taking business to be a moral calling whereby the main objective is doing good. Here the higher end is identified as the principle of gratuitousness. It is important to keep in mind that, in moving to consideration of the higher end, and beyond to ultimate end-state, conventional borders between archetypes (profit, nonprofit; financial, social) tend to become more fluid. At the same time, the influence of broader principles (common good, gratuitousness, solidarity, interdependence, reciprocity) tends to appear across diverse models.

Architecture of Economy of Mutuality

We can develop the idea of economy of mutuality further with the help of five key background concepts. Taken together, these key concepts point to the ultimate end-state of business across archetypes – reciprocity and integral human development (See Diagram 15.2 below).

Diagram 15.2 Conceptual architecture of economy of mutuality

Transcendent *telos* (across archetypes)	Reciprocity; integral human development		
Philosophical anchors	Social solidarity & interdependence, cultural capital, *homo reciprocans,* common good, virtue		
Pro-social end	Mutual benefit; shared value; gratuitousness		
Proximate end	Assistance, welfare	Development	Profitability
Modus operandi	Logic of gift	Hybrid economic logic	Logic of exchange
Sector	Social economy	Crossbreed economy	Market economy
Business Enterprise archetype	Charitable/nonprofit Enterprises (archetype 3)	Social Enterprises (hybrids of archetypes 1 & 2; 2 & 3)	For-Profit Enterprises (archetype 1)

The five key concepts are as follows:

1. Solidarity
2. Cultural capital
3. *Homo reciprocans*
4. Common good
5. Virtue

Solidarity

Some may be surprised to learn that many classical social and economic theorists espoused a robust spirit of social solidarity for business. For Émile Durkheim, social solidarity correlates with various types of society. Durkheim distinguished "mechanical" from "organic" solidarity in his theory of the division of labor (Durkheim 1893). In the case of mechanical solidarity, a society's cohesion stems from homogeneity. People are linked through similar work, educational backgrounds, religious training, and lifestyles.

Mechanical solidarity typically is found in "traditional" and small-scale societies, such as tribes, where kinship bonds of familial networks occur. On the other hand, organic solidarity arises out of interdependence from specialization of work and complementarities between people. This is a development occurring in "modern" and "industrial" societies. Organic solidarity is social cohesion grounded in a dependence individuals have upon one other in more advanced societies.

For J.S. Mill and others, mutual assistance in business was the norm. Cooperation in the context of particular businesses was in elemental form a more generalized style of cooperation forming the heart of the division of labor, and hence, of the market (Mill 1848, at IV.7.21). Unlike Marxist accounts, Mill interpreted collaboration, not class conflict, as essential to market operation.

Mill favored economic democracy rather than capitalism as such. In advocating worker cooperatives over capitalist enterprise he states:

> The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves (Id. at IV.1.7).

From the standpoint of today's competitive global economy, Mill's observation is incisive: "there is no more certain incident of the progressive change taking place in society, than the continual growth of principle and practice of cooperation" (Ibid.).

Although individuals may perform different tasks and possess different values and interests, the order and solidarity of society depends on their mutual reliance to carry out their respective tasks. As such, social solidarity is maintained in more complex societies through interdependence. Such solidarity is seen in contemporary business relationships such as supply chains.

With globalization questions arise about what it spells in terms of solidarity. Robert Keohane and Joseph Nye characterize globalization as an increase in networks of interdependence obtaining between people across multi-continental divides (Keohane and Nye 2000, p. 105). Their characterization emphasizes that globalization, far from being a one-dimensional type of connectedness, is taking place within intricate interdependent webs. Globalization occurs on multiple tiers: technological, environmental, economic (encompassing consumption, finance, investments, production, trade), cultural, social, legal, and political. Given so many patterns of interdependence, the challenge is to infuse these patterns with solidarity. One way this can come about is through growth of cultural capital.

Cultural Capital

The concept of cultural capital (Bourdieu 1986) refers to the reservoir of lively interrelations among people, along with mutual concern, shared understandings, common moral values, and trust. This intangible social asset solidifies affiliates of human communities and associations. It enables cooperative pursuits to materialize. Cultural capital lifts organizations and business communities up, making them more than a haphazard group of people each bent on advancing their respective private projects. The idea signifies the wherewithal required in running everyday dealings in public life. Those resources comprise beliefs, customs, habits, and morals. Such multifarious traditions, what Rousseau characterized as *moeurs* (Trachtenberg 1993, p. 231) we learn from our parents, and they make us suitable participants in the social and economic order.

The way we interpret the mutual influences exerted between our common culture, the regulatory authority of government, and the businesses that operate in the economy shapes the way we comprehend the virtuous businessperson and the virtuous company.

Granted that businesses may have the ability to generate wealth, a question lingers: for what purpose? Considering, in light of financial engineering advancements, the momentous technical progress that can be achieved in constructing wealth, what remains unanswered is whether we are left any better than before. Of course, empirical data culled from balance sheets and revenue statements can indicate that a firm has generated greater wealth than the previous quarter. And technological innovation might raise its levels of productivity. But KPIs (key performance indicators) will not provide any indication of whether our character is improved, or whether we are in a state of overall well-being. The intricate issue of to what extent our creative drive guides us toward authentic human betterment cannot be completely comprehended from the perspective of a market devoid of moral-cultural capital. On its own, such a market gives no signals as to whether we are approaching greater alignment with our human nature. Considered apart from cultural capital, the economic system itself does not provide criteria for making judgments distinguishing between higher modes of human satisfaction, based on authentic needs, and lower modes that chase after fake needs and cripple our opportunities for genuine human fulfillment.

Economy of mutuality presupposes devotion to moral virtues developed within a culture having the ability to ripen the excellence of the whole person. Considered by themselves, neither market nor government can accomplish this. Economy of mutuality reminds us that technical business competence and informed government policies, while imperative, cannot of themselves assemble a good company or a good businessperson.

Culture inculcates a way of viewing the world, of perceiving what is real, of bringing sense to reality. Culture illuminates what we hold sacred, guiding us to apprehend the deepest meaning extending back to our origins and ahead to the future.

Human society is built upon a bedrck of cultural institutions. Family and education are two of the foremost institutions vital for economic society. Family comprises the primary component of human culture; it is the basic unit of society. Education cultivates an awareness of and sensitivity toward the world, inspiring a sense of wonder, firing the imagination, and granting moral vision necessary to enlighten scientific, technical and commercial undertakings.

Philosophy, along with religion, the arts, music, literature and other humanities are at the center of culture. These endeavors are concerned with what is most precious and noble in our lives. These wellsprings of higher culture prompt us to engage the deeper significance of our world, pointing beyond drab concerns of everyday things to what is enduring, directing us toward ultimate questions concerning our nature, our purpose and our destiny.

The reason for this stems from a dynamic understood from antiquity: by drawing us back to our purpose, to our authentic nature, to our destiny, higher forms of culture equip us to perceive the whole, not simply the fragments. Culture equips us to assimilate the totality of the cosmos and guides us to comprehend how we fit into it. We grasp the wholeness by being united with elemental cycles of our existence such as living, growing, dying, loving, and working so as to relate them in an organic unity instead of in a subdivided way. Hidden at the center of all cultures deserving of the name is a yen to reunite what is detached.

The gulf separating work and virtue engenders a kind of nihilism throughout much of today's business world – crossing all peoples and cultures.

Perhaps what is needed is a way of connecting one's vocation in business to an ethical outlook on commercial life. This would involve linking:

- Business life to communities of virtue;
- Generation of goods and services to the end of human flourishing;
- Commercial enterprise to the common good;
- Employment to the cultivation of excellence and pursuit of well-being in employees.

Straightforward talk about the ways cultural capital inspires and develops virtuous businesspeople can stimulate meaningful discourse across cultures. This may engender some harmony among them. A heightened rapprochement between morality and business may promote more profound interactions among cultures, equipping them to negotiate thorny ideological divergences. Yet it is not plausible to believe that we impart moral wisdom to one another if we simply follow government laws and regulations or mimic technical financial methodologies. In truth, the profit-driven mindset, collective laws and conventional practices, and the econometric worldview are too constraining for the art of business to flourish.

The notion of cultural capital provides a means of explanation for why the profit motive is best interpreted as something broader than a relentless quest for profit maximization. Most of what is needed to create profit is attainable only through the cultivation and deployment of cultural capital. And although this type of intangible capital is not amenable to being reduced to a specific item on the balance sheet, nevertheless it contains value as a path to enhancing the bottom line.

Therefore, the idea of cultural capital should be brought within the orbit of economic thinking. As with financial capital, a business can build up reserves of cultural capital. It can accumulate this asset by helping to establish relationships of accountability, commitment, fair-dealing, goodwill, mutual respect, and trust, and in the process, helping people to direct their respective talents toward a shared venture. It is a facilitator of human and social capital (Harrison 2013, p. 2). Likewise, a business can draw upon cultural capital just as it can draw upon these other forms. Yet accomplishing this may require adopting non-traditional styles of leadership and management aimed at a sapiential harnessing of intrinsically valuable human goods.

People are most apt to flourish in the sort of surroundings in which overall social progress and cultural advancement are taking place. Economic growth comes about as a cooperative—not simply an individual—enterprise. The ability of sizeable groups to operate in conjunction with one another generates social trust, one of the essential components of market activity. Francis Fukuyama states that "[t]rust is the expectation that arises within a community of regular, honest, and cooperative behavior, based on commonly shared norms …" (Fukuyama 1995, p. 26). "These norms," he notes, "can be about deep 'value' questions like the nature of God or justice, but they also encompass secular norms like professional standards and codes of behavior" (Ibid.).

Homo Reciprocans

One finds in a variety of economic theories the ideological construct *homo economicus*. Here the human person is reduced to an egoistic actor seeking to satisfy his or her subjective ends. Making rational assessments, *homo economicus* sets foot in the market to maximize utility *qua* consumer and economic profit *qua* producer.

Hence *homo economicus*, emblematic of market economy, starkly contrasts with the notion of *homo reciprocans* that portrays the human person embedded in social economy, having behavioral inclinations for reciprocity and cooperation with others (Dohmen et al. 2009). Real people do not necessarily pursue only exchanges of equivalent value; their actions sometimes spring from gratuitousness; their exchanges can be prolonged over time (Grassl 2011, p. 114; Becchetti et al. 2008).

The conceptual model relied upon to portray market economy, embraced by much of the business world, largely overlooks the fundamental complexity of human nature at the core of economics and business (Freeman and Newkirk 2008, pp. 139–143). In fact, reciprocal human behavior is harmonious with markets. Historical evidence shows that reciprocity promotes markets and is conversely buttressed by market economies (Grassl 2011, p. 114).

Common Good

Economy of mutuality stresses the purposive nature of business enterprise. As such it is in line with both the methodological approach taken by Aristotle – inquiring into the purposive character of all human enterprises (Solomon 2004, p. 1023) – as well as with approaches examining the broader purpose of business (Calvez and Naughton 2002; Sison and Fontrodona 2011).

> The notion of "common good" is especially germane, denoting something more than the competing interests of selfish individuals and beyond composite interests of special groups. It is the good we all have in common – communal conditions necessary for virtuous pursuit of human fulfillment, flourishing, and perfection by all in society. The common good is an aggregation of collaborative initiatives and shared restraints by which society helps everyone achieve what in the end only each individual can accomplish for herself: shaping a good will and constituting an authentically human self by freely choosing good every time one is given the chance and responsibility to do so.
>
> Thus understood, the common good looks in two directions: to the good of society and to the good of the individuals, since social conditions supply part of the means for human fulfillment. Yet ultimately the two directions are not at odds with one another. Instead they are correlational since "any good of an individual that is a real good is rooted in the good of the community, and, conversely, any common good that is a real good is at the same time the good of all individuals who share in that community" (O'Brien 2009, p. 29).

At its best, business builds up the common good of society (Solomon 2004; Melé 2009; O'Brien 2009; Sison and Fontrodona 2011). Moreover, the institution of business can be depicted from the standpoint of its own peculiar common good (Sison 2007; Melé 2009). Taken together these propositions mean that business advances the common good of society when it sets about fulfilling the common good of its own (Sison and Fontrodona 2011).

To this point, in the eyes of many classical economists, instead of contravening civil society, the market embodies it. Proper functioning of the market depends on contracts, cooperation, institutions and trust. These elements promote reciprocity. Throughout the classical Latin tradition, economic activity provides a setting where humans manifest their social being, revealing a thirst for camaraderie in relationships of equality and dignity.

For those who see the market as a den of vicious selfish competition, characterized by excessive gain-seeking behavior of business firms, such characterizations appear strange. But a crucial insight that economy of mutuality offers is this: the market reveals itself as a manifestation of social life the moment we discern beneath it a shared sense of common good. This is something logically prior to bargaining.

By building good and just institutions, by forming agreements grounded in authentic trust rather than on the basis of deceptive and disingenuous corporate images, market interactions will take on a wider and more virtuous role. From this vantage point, the economy of mutuality acquires nourishment from a tradition of thought common in ancient economies.

Virtue

There is a moral disconnectedness both within business and within wider culture. This decoupling arises from a self-understanding of business that has unwittingly abandoned the moral virtues in relation to economic life, together with their broader cultural underpinnings. Consequently, it is urgent to consider what is meant by being "good" and "successful" in business, and to clarify the virtues required for being a good businessperson.

Our inquiry is aided by reflecting on cultural capital – the intangible moral resource needed to develop the virtues for achieving excellence in business, whatever one's station. The virtuous businessperson is not only a self-project of individual motivation and effort. Cultivating virtue ultimately depends upon culture – its institutions of family, education, and the arts – to provide formation that fosters excellence.

The Place for Profitability

Considering business as a human enterprise (Freeman and Newkirk 2008), one finds that deep down, people work to gain a better, fulfilled life for themselves, for loved ones, for the community in which they live. For this betterment to happen, it is vital that individuals working in a free market economy have opportunities to willingly invest whatever talent, vigor, and know-how they possess.

From this dynamic of freely investing themselves, a free people is guided, in Adam Smith's imagery, by an invisible hand toward prosperity and well-being. In this way, we expect that wealth will be created, not just in the short term but in a sustainable fashion. Adam Smith's invisible hand need not be taken to convey anything mysterious. Common sense suggests that by letting people go after their self-interest, unintended yet favorable social outcomes will ensue. In the course of seeking profit, people unwittingly contribute beneficial effects: increasing the overall wealth of society, facilitating technological innovation, fostering peace and civility, enabling workers to get more and improved jobs, bringing people of different lands together to know and respect one another.

Of course, not all motivations underpinning markets are purely self-interested. Nor is the invisible hand a completely reliable check on individual rapacity. Beyond pointing out the importance of pursuing self-interest, Adam Smith stresses the virtues of benevolence and sympathy. (Smith 1759/1976). For Smith, self-interest expressed within the rules of a commercial society is not opposed to virtue. Indeed, character traits associated with the pursuit of long-term self-interest – prudence, temperance, and self-command – are key business virtues (Hirschman 1997, pp. 18–19).

Contemporary market economy represents one component of ideal commercial society. Additional elements are private property, free exchange, democracy and rule of law. Taken together, these components help fuel individual initiative, engaging creative capacities across the population to give those potentials a chance to ignite, express themselves, and lead to contentment and well-being.

Yet the profit motive is seen in wider culture as the end-all-and-be-all of business. Relentless pursuit of profit is praised: "the honor is in the dollar." But the concept of "profit motive" is distorted by narrow economic models. The mindset that sees markets as fueled entirely by self-interest, taking self-interest as the single-minded hunt for profit, misunderstands both "self-interest" and "profit maximization."

Self-Interest in Proper Proportion

Tocqueville observed, in the American context, an attitude of rational self-interest properly understood: each person identifies their own self-interest with that of all in the society.

When rightly understood, self-interest elevates people above narrow selfish preoccupations. Although self-interest might not instantaneously manufacture virtue, it wields a discipline that "shapes a lot of orderly, temperate, moderate, careful, and self-controlled citizens" (Tocqueville 1863/1994, p. 527). From Tocqueville's vantage point, a person's rational concern for self gets joined to a broader sense of esteem for various cultural, moral, and legal establishments enabling the wider population to follow their freely selected ambitions, principally through business enterprise.

A virtuous company is a far cry from a mere "profit machine." Writing about visionary companies, Collins and Porras state that

> Profitability is a necessary condition for existence and a means to more important ends, but it is not the end in itself for many of the visionary companies. Profit is like oxygen, food, water, and blood for the body; they are not the *point* of life, but without them, there is no life (Collins and Porras 1994, p. 55).

Such companies embrace a "core ideology," or "vital shaping force" which might stem from its origins, as in the case of Sony; or, as with Merck, from a successive generation; or even remain quiescent to be revivified at some subsequent point, as occurred with Ford (Id. p. 54). A virtuous firm might have as its principal motivations professionalism, civic responsibility and customer service, like Housing Development Finance Corporation.[3] Its driving force could be "bedrock values" of personal accountability, respect for the individual, truth, and fair dealing, like Sealed Air Corporation.[4] It may be spurred on by a commitment to integrity, fairness, fun, and social responsibility, as AES Corporation is.[5]

As with a human being, the organization must have an authentic commitment to its objectives, in a way that is true to its own character and internal nature as a moral agent that is free to choose. It cannot simply mimic the values of other firms, conform to external diktats, or smartly calculate which roster of values will prove to be the most lucrative, trendy or well-liked (Collins and Porras 1994, p. 75).

No matter how a company articulates its mission, profit maximization normally is not listed as its objectives. Instead, profit is a predictable and reliable side-effect arising in an indirect fashion from the company seeking other aspirations. To situate this thought within the real world of business, we can turn to the results of Collins and Porras' extensive study of companies noted for attaining exceptional long-term performance. Among their findings, the authors note a shattering of the myth that the companies achieving the highest degree of success owe their existence principally to the quest for profit maximization:

> Contrary to business school doctrine, "maximizing shareholder wealth" or "profit maximization" has not been the dominant driving force or primary objective through the history of the visionary companies. Visionary companies pursue a cluster of objectives, of which making money is only one – and not necessarily the primary one. Yes, they seek profits, but they're equally guided by a core ideology – core values and sense of purpose beyond just making money. Yet, paradoxically, the visionary companies make more money than the more purely profit-driven comparison companies" (Collins and Porras 1994, p. 8).

Narrowing in on profit alone makes an enterprise lose sight of its authentic mission. Conversely, if a firm remains guided by its true objective, profit is produced in due course.

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[3] HDFC (A) Harvard Business School Case No. 9-301-093 (2000).

[4] Sealed Air Corporation: Globalization and Corporate Culture (A), (B), Harvard Business School Case Nos. 9-398-096, 9-398-097 (1998).

[5] AES Honeycomb (A), Harvard Business School Case No. 9-395-132 (1994).

Collins and Porras demonstrate how companies that elevate profit to the apex of their business plan, considering everything else as subordinate to it and deeming this to be the principal means by which to beat the competition, forfeit the competitive advantage they were pursuing. Rather than “beating the competition,” visionary companies,

> focus primarily on beating themselves. Success and beating competitors comes to the visionary companies not so much as the end goal, but as a residual *result* of relentlessly asking the question “How can we improve ourselves to do better tomorrow than we did today?” And they have asked this question day in and day out – as a disciplined way of life – in some cases for over 150 years. No matter how much they achieve – no matter how far in front of their competitors they pull – they never think they’ve done “good enough” (Collins and Porras 1994, p. 10).

The upshot is that the invisible hand is more flexible, having a wider range of motion than normally thought. The invisible hand guides in not one but two directions: social good gets generated as a consequence of businesses’ quest for profit; as well, businesses’ quest for social good generates profit. Economic and moral values, along with financial and social values, are not necessarily at odds with one another but instead complementary, in the way oppositions of “yin” and “yang” function as harmonizing forces of holistic Eastern philosophy (Jackson 2004, p. 46).

Conclusion

This chapter shows how economy of mutuality can help us comprehend the blurring of boundaries sometimes seen between “normal” businesses (market economy) and non-for profit or social businesses.

The proximate ends of for-profit, hybrid, and nonprofit businesses respectively was identified at the level of business and economic theories.

Higher ends of these various archetypes were then spotlighted, and an account of an ultimate end-state across archetypes was articulated at a deep and broad level. With the help of five concepts – social solidarity and interdependence, cultural capital, *homo reciprocans,* common good, and virtue – it was explained why the ultimate end-state is reciprocity and integral human development.

Among the implications raised by economy of mutuality are a reappraisal of boundaries between sectors, along with an appropriate endorsement of new forms of business enterprises. According to this interpretive framework there is no reason to privilege either for-profit enterprise or non-profit enterprise, by crediting either of them with carrying out a more important task or imparting higher moral value. The shift is toward the objective of infusing all archetypes of business enterprise with “pro-social” attitudes.

Another implication of economy of mutuality is a call to update outmoded approaches to executive leadership entrenched in narrow mindsets threatening to decouple business from its nobler purposes.

Overall, the chapter shows how the mode of organization represented by various archetypes of business enterprise is secondary to the higher purpose of a business. The analysis advocates comprehensive moral thinking, inviting business leaders to look at their roles not solely in insular economic terms, but in pro-social terms. From the standpoint of economy of mutuality, while it is acknowledged that for-profit business enterprises have shareholder and stakeholders, they have as well vocations to engage in realistic ways with other institutions in building a better, more sustainable world by fostering reciprocity and authentic human development.