Humanistic Entrepreneurship: 
An Approach to Virtue-based Enterprise

Benito L. Teehankee
De La Salle University-Manila
teehankeeb@yahoo.com

In a country wracked by grinding poverty such as the Philippines, entrepreneurs can be potent agents of economic prosperity. But what is less emphasized in many accounts of entrepreneurship is the approach of some entrepreneurs to building enterprises which not merely deliver financial results but also promote the holistic development of the members of the enterprise. This approach can be termed “humanistic entrepreneurship.” The paper examines conceptualizations of humanistic entrepreneurship based on management, leadership, organizational culture and ethics literature. Illustrative cases are presented which show that humanistic entrepreneurship is based on virtues, principles and skills of entrepreneurial founders. A conceptual framework for future research in humanistic entrepreneurship is proposed.

Keywords: Entrepreneurship, humanistic entrepreneurship, leadership, ethics

BACKGROUND AND OBJECTIVES

This paper has two motivations: one related to entrepreneurship and business practice in the Philippines; and the other to the role of ethics in entrepreneurship theory. On the aspect of practice, it will be recalled that the 21st century opened with a series of highly publicized business scandals reported in the news. Invariably the scandals involved major ethical and legal breaches on the part of prominent American companies, such as Enron and WorldCom, and auditing firms such as Arthur Andersen.

While regulatory bodies in the US and the Philippines have scrambled to institute reforms in monitoring standards for public corporations, fundamental questions are being raised about the role of business in society. Can business be trusted to behave in the interest of investors and the public at large? What kinds of companies should be established which can promote trustworthy and socially responsive business behavior? What is the role of entrepreneurship in building trustworthy companies? These questions are made more urgent by the high levels of income inequality that continue to plague countries like the Philippines, despite healthy growth in the business sector (Teehankee, 2008). This paper attempts to address the need for building trustworthy companies to start as early as during the entrepreneurial stage. This is consistent with the current attention being given to entrepreneurs in media and in public recognition programs such as the Ernst & Young Top Entrepreneurs of the Year Award (Ernst & Young, 2008).

From a theoretical perspective, this paper attempts to address a gap in entrepreneurship
research especially in the area of ethics. Much of the research in entrepreneurship has been descriptive and positivist. Research regarding entrepreneurship has focused, to a significant degree, on its value-creating outcomes due to the personal characteristics of entrepreneurs, such as self-confidence, originality, people orientation, task-result orientation, future orientation and risk-taking (Meredith, Nelson & Neck, as cited in Chavez, 2000). This approach has been echoed in local research as well (Chavez, 2000; Divinagracia, 1993; Edralin, 1998). Such descriptive and positivist research has basically asked such questions as: “Who are effective entrepreneurs?” and “What factors lead to effective entrepreneurship?”

While newer entrepreneurship research has looked at other aspects of the phenomenon, such as the exploitation of opportunities (Shane & Venkataraman, 2000) and the entrepreneur’s relationship with the environment (Bruyat & Julien, 2000), ethical aspects seem to be relatively unexplored. This is regrettable since building ethical organizations can be legitimately included as an entrepreneurial act in the sense of Schumpeter’s “new ways to organize” (Hwang & Powell, 2005, p. 202). Viewed in this broad sense, innovatively organizing a business in order to achieve higher-order ethical goals may be construed as a legitimate entrepreneurial achievement.

Within the last two decades, ethical and social responsibility considerations have been pervading other major areas in business research. For example, in the case of corporate social responsibility, the link between a company’s so-called social performance and its financial performance has been extensively investigated. In 53% of studies reviewed by Margolis and Walsh (2001), results pointed to a positive relationship between corporate social performance and financial performance.

Meanwhile, the study of entrepreneurial ethics is much less developed with studies few and far between (Bucar & Hisrich, 2001; Longenecker, McKinney & Moore, 1988; Quinn, 1997). With respect to the few studies that have been done, inconsistent findings have emerged. Longenecker et al. (1988), in comparing ethical attitudes of entrepreneurs and managers, detected a slightly greater tendency for entrepreneurs to approve morally questionable business behavior. Bucar and Hisrich (2001), on the other hand, hypothesized and confirmed opposite findings: entrepreneurs were slightly more critical of ethically dubious situations than the comparison group of managers. In a similar vein, Teal and Carroll (1999) reported that “when existing theories in the areas of business ethics, entrepreneurship, and psychology are considered concurrently, they have suggested that entrepreneurs as a group, may exhibit higher levels of moral reasoning skill” (p. 238). Further research can surface any number of moderating variables which may account for these different findings.

This paper aims to achieve the following:

1) Situate the role of entrepreneurial business in the socio-economic development goals of a developing country such as the Philippines;
2) Discuss the role of ethics and ethical leadership among entrepreneurs in developing value-creating and socially responsive business;
3) Present a classification framework for levels of entrepreneurial humanism;
4) Discuss illustrative cases of humanistic entrepreneurship;
5) Propose a conceptual framework for research on humanistic entrepreneurship.

THE COUNTRY’S SOCIO-ECONOMIC STATE AND THE NATIONAL ROLE OF ENTREPRENEURIAL BUSINESS

In October 2007, the National Statistics Office (NSO) in the Philippines released the results of the triennial Family Income and Expenditure Survey (FIES). The findings of the survey are sobering. While total annual family income grew in constant 2003 prices from P2,437 billion to P2,478 billion, average annual family income actually decreased
from P148,000 to P142,000 (National Statistics Office, 2008a) As to income distribution, the survey indicated a slight improvement in the Gini coefficient for the period. However, the NSO banner for the FIES summary report highlights this deplorable distribution situation: “HIGHEST INCOME EARNERS CONTINUE TO CONTRIBUTE MORE THAN ONE-THIRD TO THE INCOME OF ALL FAMILIES”. Indeed, the 10th decile of families earned P1,082 billion in 2006, a full 36% of the total family income of P3,006 billion earned by all Filipino families for that year.

Meanwhile, financial indicators from the country’s corporate sector have been quite impressive in recent years. BizNews Asia (2006) reported that the 10 most profitable corporations of 2005 together netted P219 billion compared to P86 billion in 2004—an increase of more than 150 percent. The Philippine Stock Exchange (F. Lim, personal communication, March 16, 2007) reported that the stock market return in 2006 as measured by the PSEi was 42.3 percent, an impressive increase from the 14.9 percent increase the index registered in 2005. The PSE also reported that total market capitalization grew from barely P3 trillion in 2000 to more than P7 trillion by the end of 2006.

The recent years’ rosy corporate numbers combine with media reportage to romanticize corporate wealth in the public imagination. Time magazine’s cover of February 23, 2004, showed Henry Sy and his children with the caption “The Families that Own Asia”, implying, almost subliminally, that the corporate wealthy can indeed “own” a country or even a continent. The recent announcement by Forbes magazine (Agence France-Presse, 2008) of the country’s wealthiest, namely, Lucio Tan ($1.5 billion) and Henry Sy ($1.4 billion), shows the link between corporate control and tremendous levels of personal wealth.

The fact that periods of strong growth in the top levels of the business and financial sectors do not correlate with improving average family incomes for Filipinos is a cause for concern. After all, business is given a special role in Philippine society for the promotion of every citizen’s welfare. The Philippine Constitution, in fact, refers to the “common good” half a dozen times. In particular, Article XII, Section 6 on National Economy and Patrimony states:

The use of property bears a social function, and all economic agents shall contribute to the common good. Individuals and private groups, including corporations, cooperatives, and similar collective organizations, shall have the right to own, establish, and operate economic enterprises, subject to the duty of the State to promote distributive justice and to intervene when the common good so demands. (De Leon, 2002, p. 365)

Thus, while the right to private property of corporate shareholders is fully recognized, such a right is not absolute. It is always subordinate to the mandate for all economic entities, such as corporations, to support the development of all and to give to others their just share of the fruits of production. In particular, Article XIII Section 1 on Social Justice and Human Rights states:

The Congress shall give highest priority to the enactment of measures that protect and enhance the right of all the people to human dignity, reduce social, economic, and political inequalities, and remove cultural inequities by equitably diffusing wealth and political power for the common good.

To this end, the State shall regulate the acquisition, ownership, use, and disposition of property and its increments. (De Leon, 2002, p. 390)

The explanatory note to the 1980 Corporation Code reinforces the distributive role of business, particularly that of corporations, when it states that the:

… Code seeks to establish a new concept of business corporations so that they are not merely entities established for private gain but effective partners of the National Government.
in spreading the benefits of capitalism for the
social and economic development of the
nation. (De Leon, 2001, p. 183)

Thus, it is clearly the intention of the framers of the
Constitution and the national government that
business growth contribute to the upliftment of all
and not merely to the increasing wealth of the
already richest families.

But does business practice encourage the
upliftment of all? For some time now, the
Department of Labor and Employment (DOLE) has
been reporting the rising trend in contractualization,
with the proportion of non-regular workers in the total
employment rising from 20.51% in 1991 to 28.2%
in 1997 (Department of Labor and Employment,
2007). Similarly, DOLE reports that violations of
labor laws, in general, and minimum wage laws, in
particular, remain rampant in the country, averaging
around 50% and 25%, respectively (as cited in

There is much to be desired with respect to the
role that business has been playing in the Philippine
socio-economic arena. Entrepreneurial businesses,
because of their ability to innovate with respect to
business opportunities and organizational
arrangements (Schumpeter, as cited in Hwang &
Powell, 2005), have a particularly potent role to
play in addressing the current gap between the
ideal and actual role of business in the country. High
on the list of people whose development
businesses should support and who should share
in the fruits of production are their own employees.

The Philippine income distribution situation
already described by the NSO-FIES above has
remained troublesome in recent years, as shown
by government reports for the Millennium
Development Goals or the MDGs (National
Economic Development Authority, 2005). While
the national poverty rate hovers around 30%,
many regions in the country have much higher rates
with some reaching as high as 55%. The consistent
economic growth rates experienced by the country
in the last decade of 5% and above, peaking at
more than 7% in 2007 (National Statistics Office,
2008b) have not translated to addressing poverty.

ENTREPRENEURSHIP AND BUSINESS
AS VALUE CREATION

In the movie Pretty Woman (Marshall &
Ziskin, 1990), Edward Lewis (played by Richard
Gere), is a millionaire corporate raider who gets
romantically involved with Vivian Ward (played by
Julia Roberts), a prostitute. After finding out about
Edward’s company was in the business of buying
companies, breaking them up and selling the pieces
for a profit, Vivian, in all shocked innocence
exclaims, “So you don’t actually make anything.”
Edward’s realization of the truth of Vivian’s
statement was a turning point for him. He realized
that while he made plenty of money, he produced
no value at all.

The purpose of business has been
conceptualized as the creation of value and that of
entrepreneurship as the creation of new value.
Hisrich and Peters (1998) defined entrepreneurship
as “the process of creating something new with
value by devoting the necessary time and effort,
assuming the accompanying financial, psychic, and
social risks, and receiving the resulting rewards of
monetary and personal satisfaction and
independence” (p. 9). Other authors have similarly
conceptualized entrepreneurship as the creation of
new value (Bruyat & Julien, 2000) through
the introduction of a new organization’s delivery of a
product or a service. Value is traditionally
conceptualized as the production of future income
streams (cash profits) to the business created by
the entrepreneur.

Much of finance and economic theory measures
value through cash returns and price as determined
by a free market. This has facilitated the creation
of sophisticated mathematical and analytic models
for helping businesses make decisions (Bodie &
Merton, 2000). Yet some economists in recent
decades have begun to acknowledge that value is
only partially measured by price or financial return.
Anderson (1995), for example, argues quite
forcefully that:

- treating something as a commodity is
tantamount to asserting that its value can be
expressed in a price... but with respect to many goods, this assertion is both false and at odds with our ordinary evaluative judgments and practices. The proper way to value these goods – love, admiration, honor, commitment – is incompatible with assigning them a price. ...The problem is not simply that markets tend to undervalue [these] goods – to assign them too low a price – but to misvalue them – to assign them a price at all and thereby to attribute to them a kind of worth that is incompatible with their true value (p. 192).

An offshoot of defining value in terms of cash flow and price is the measurement of business performance principally by profit. This perspective is severely limited from the point of view of building business institutions. A study of so-called visionary companies by Collins and Porras (1994) showed that the successful companies they studied which survived through the most trying circumstances, such as IBM, Merck, Sony, 3M, and Walt Disney, evaluated themselves beyond their profitability. The authors argued that for these companies:

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 (p. 55).

Given the powerful impact of business in society in general and the myriad social concerns which have been associated with business activity, the classical conception of business and entrepreneurship as mainly profit and cash-producing activities have serious limitations. First, it neglects the non-economic impacts of business activity. Second, it does not consider issues of sustainability of profits and growth especially with respect to resources, community impact, and environmental concerns. Third, it prioritizes returns to owners out of proportion to their contribution and rights.

Business has many non-economic effects. A major one is its effect on the level of trusting relationships created in society. In the case of Enron, it was clear that the company’s behavior was seen as a major breach in trustworthiness. Thus the impact on the sentiments of countless people towards business in general was seriously harmed. This was reflected in the general slow down of the capital markets in the US after the scandal made the news. Similarly, the Philippine BW Resources scandal, with its allegations of insider trading and Presidential intervention, caused the stock index to drop significantly and threatened to cause the shutdown of the stock exchange (Crampton, 2000).

While value as economic returns is necessary for a viable entrepreneurial venture, it appears not to be sufficient in ensuring that the business established is a sustainable economic entity and, more importantly, that it will contribute positively to the values structure of society. Thus, value is better measured by a company’s contribution through socially beneficial products and services and other outcomes, such as employment, which are aligned with positive social and human values.

ETHICS, VALUES AND BUSINESS

If business value is to be aligned with positive social values, the issue of which values to adopt arises. Are there generally accepted values? Although moral relativism is still a popular stance to take, it is easy to see that certain values such as reciprocity and honesty are critically needed for businesses to even continue to exist. Every business transaction, after all, is a contract, and the honoring of contracts is fundamental to the idea of business. Business people need to at least assume that the other person will fulfill his end of the bargain.

Catholic Social Teaching (Curran, 2002; Pontifical Council for Justice and Peace, 2004) gives guidance on the values that should guide entrepreneurs and business. John Paul II (1991), in the encyclical *Centesimus annus*, wrote:
A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price mutually agreed upon through free bargaining. It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes [an] … important source of wealth in modern society. (#32)

The above quote seen within its proper context, John Paul II, in fact, encouraged the pursuit of profit. He explained the proper context for profit in meeting human needs and serving society:

The church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. But profitability is not the only indicator of a firm’s condition. It is possible for the financial accounts to be in order, and yet for the people — who make up the firm’s most valuable asset — to be humiliated and their dignity offended. Besides being morally inadmissible, this will eventually have negative repercussions on the firm’s economic efficiency. In fact, the purpose of a business firm is not simply to make a profit, but such purpose is to be found in its very existence as a community of persons who in various ways constantly endeavor to satisfy their basic needs, and who form a particular group at the service of the whole of society. Profit is a regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business (Centesimus annus #35).

The nuanced role of profit in business and its anchoring in broader human, social and moral considerations in Catholic Social Teaching is a stark contrast to the often uni-dimensional economic portrayal of business in academic literature.

The supposed international divergence of values has been challenged by international groups starting with the Universal Declaration of Human Rights promulgated by the United Nations in 1948 (Dalla Costa, 1998). Dalla Costa documented the growing international consensus on universal human values across religions and cultures, even if local variations abound. He observed that the principle of reciprocity, for example, occurs in most major religions. Dalla Costa also noted common themes in the pronouncements of various international ethics advocacy groups, namely, the Parliament of the World’s Religions, The Interfaith Declaration, Adhoc Inter-Faith Working Group and the Caux Principles. He qualitatively extracted five ethical imperatives that ran through all four pronouncements, which are the following: respect life, be fair, be honest, strive for justice, and honor the environment. There is, therefore, a clear convergence in basic human values globally.

Donaldson and Dunfee (1999), as part of their Integrative Social Contract Theory (ISCT) have called such universal values hypernorms (p. 49). They argue that since business can only thrive in an atmosphere of trust produced by trustworthy behavior of business participants, everyone has to play within reasonable norms. These norms have to be guided by universal values.

There is a need to broaden the conception of entrepreneurship beyond economic returns and efficiency. A conception of entrepreneurship which not only acknowledges the economic imperative but also accommodates the contribution of a business to the promotion of priority social values and hypernorms is needed. This need is partly driven by the current limits to growth imposed on business by increasing global competition, environmental constraints, and regulatory regimes (Clark & Clegg, 1998). Mostly, however, this imperative is driven by the need to make business more cognizant of the human and social needs of various stakeholders.

Unfortunately, business education has tended to emphasize individual competitive interest over ethics, values and the common good (Daly & Cobb, 1994). For example, Neal M. Stoughton, a finance professor from the University of California-Irvine argued for the extreme position that a course on ethics should not be
included in the business curriculum, but that ethical considerations should merely give way to free market principles. He said: “The whole notion of business is about profit and competition and trying to defeat your opponent. Ethics implies that there’s some social good at stake. If you worry about social good, you’ll end up being clobbered by the competition” (Mangan, 2002). This emphasis on individual competition is clearly a result of having complete faith in the teachings of mainstream economic theory (Friedman, 1970).

In sharp contrast to Stoughton’s position, the validity of mainstream economic theory has been questioned by a number of prominent economists including Joseph Stiglitz and Amartya Sen, both winners of the Nobel Prize. Stiglitz (2001), for example, cautioned against too much belief in the so-called “invisible hand” which enables self-interest in a free market to translate to the common good. He explained that “the hand may be invisible [because] it is simply not there – or at least that if it is there, it is palsied” (p. 473). He recognized the severe limitations in traditional economic explanations of the behavior of people and economies more to the point when he stated:

[I knew that] something was wrong – seriously wrong – with the competitive equilibrium models which represented the prevailing paradigm when we went to graduate school. It seemed to say that unemployment didn’t exist, that issues of efficiency and equity could be neatly separated, so that economists could neatly set aside problems of inequality and poverty as they went about their business of designing more efficient economic systems. (p. 476)

Amartya Sen, for his part, likens the rational economic man (homo economicus) proposed by mainstream economic theory to a “social moron” because in his quest for self-interest, he completely ignores his duties to others (as cited in Lutz, 1999, p. 157).

**LEVELS OF ETHICAL THINKING AMONG INDIVIDUALS**

The psychologist Lawrence Kohlberg did pioneering research on how individuals develop ethical judgment in the process of maturing. He described three main levels of what he called “cognitive moral development” (as cited in Treviño & Nelson, 1999) which refers to how people tend to change their basis for deciding right and wrong at each level of their development. Each level is subdivided into two stages which make a total of six stages that a person goes through in maturing ethically. In Level I, or the pre-conventional level, people are mainly self-interested; they simply pursue pleasure and avoid pain or punishment. What is considered right at this level is mainly what maximizes personal benefit and minimizes personal pain. One can clearly see that self-interested rational economic man is only at this first/initial level of moral development.

In Level II, or the conventional level, people become more interested in group or social rules. What is considered right at this level is what meets the expectations of one’s group and society. In Level III, or the principled level, people become more interested in deciding right and wrong on the basis of reflection and careful reasoning. What is considered right at this level is what a person can rationally defend, based on principles developed through thorough, calm and carefully reasoned analysis, free from pure self-interest and external pressure. This is similar to what Shaw and Barry (2001) refer to as:

considered moral beliefs [which] are those we hold only after we have made a conscientious effort (a) to attain maximum conceptual clarity, (b) to acquire all relevant information, (c) to think about the belief and its implications rationally, (d) impartially, and with the benefit of reflection, (e) coolly. (p. 26)

Kohlberg pointed out that as individuals mature, they go through the different levels in strict sequence; nevertheless, most people reach only the
conventional level. In this view, entrepreneurs should strive to reach the principled level in their ethical development. It is at this level that an entrepreneur begins to escape the limits of pure self-interest or social pressure in deciding on the right thing to do. This is the level where the entrepreneur truly becomes trustworthy to the public because his decisions are based on principles which can be fairly applied to all, even at personal risk or loss to himself. This captures our general notion of the “principled” person. Principles are, therefore, a key ingredient in entrepreneurial ethics.

Reidenbach and Robin (1991) extended the cognitive moral development framework to the corporation as a whole. They proposed that a corporation likewise develops through stages of ethical maturity as its culture internalizes principled ethics. The stages, (with their main motivations presented below within parentheses), were adapted by Kooskora (2006). These are as follows: Amoral (maximum profit at all costs); Legalistic (follows the letter of the law, legal=ethical); Responsive (helps local community, social responsibility if profitable); Emerging Ethical (balancing ethics and profit, has ethical artifacts); and Developed Ethical (principle-driven).

While ethical principles emphasizing rationality and impartiality as discussed above dominate academic literature on ethics, the role of relationships and affect – an ethics of care — has been presented as equally important in business ethics as presented by women ethicists such as Carol Gilligan (as cited in Velasquez, 2006) who was a student of Kohlberg. This ethical perspective argues that “the moral task is not to follow universal and impartial moral principles, but instead to attend and respond to the good of particular concrete persons with whom we are in a valuable and close relationship” (p. 182). An ethics of care also supports humanistic entrepreneurship in the sense that business owners and managers are prompted to display concern, compassion, love and kindness towards workers (Marcic, 1997; Shelton, 1990).

THE ROLE OF ORGANIZATIONAL LEADERSHIP AND CULTURE

As the now infamous Enron and WorldCom scandals have shown, businesses which do not behave morally can suffer tremendous loss of value as they lose credibility with the public. Government attempts to improve the ethical behavior of business through tougher rules, improved monitoring and stiffer penalties may help but it will not suffice. Moral behavior is guided by values and not rules. A Conference Board survey of corporate ethics officers (Taub, 2002, para. 6) stated that:

an absence of ethical leadership and a culture of ‘anything goes as long as it makes a buck’ will prevail over even the best training, code of conduct, or hotline. … This emphasizes the critical importance of building integrity into the essence of the corporation.

So where does one begin to build such integrity into a company? As the Conference Board survey indicated, moral behavior is promoted by a company’s culture.

Social psychologists have long noted that a company’s culture is shaped early in the life of a business – during the entrepreneurial stage (Schein, 1992). Strategic choices of entrepreneurial firms are heavily influenced by the values and beliefs of the founders. Given sufficient time, the decisions of the entrepreneurial leaders lay the foundation of the company’s organizational culture. Therefore, entrepreneurship at the outset should be aligned with ethics to lay the foundation of a business that will continuously create value and promote trustworthy behavior.

Entrepreneurs as company founders can shape the ethical culture of a company in many ways (e.g., personal attention to operational issues which involve ethics, role modelling, training of members, rewards and promotion, etc.). Early on in his life, Henry Ford emphasized:

I don’t believe we should make such an awful profit on our cars. A reasonable profit is right, but not too much. I hold that it is better to sell a large number of cars at a reasonably small
profit… I hold this because it enables a larger number of people to buy and enjoy the use of a car and because it gives a larger number of men employment at good wages. Those are the two aims I have in life. (Collins & Porras, 1994, p. 53)

Is this a uniquely Western view? Maybe not. Collins and Porras (1994) also cited the case of Masaru Ibuka, co-founder of Sony Corporation, who, long before the company had any positive cash flows, laid down the management guidelines, among others, for the company:

- We shall eliminate any unfair profit-seeking, persistently emphasize substantial and essential work, and not merely pursue growth.
- We shall place our main emphasis on ability, performance, and personal character so that each individual can show the best in ability and skill. (p. 50)

The core values of a company are laid down by its entrepreneurial founders. These values, if planted well, serve to act as internal guidance for company members for years to come. The entrepreneur becomes a values-based leader (O’Toole, 1995). Schein (1992), however, pointed out an important requirement for culture to form in a company; it is that cultural values must be seen by members to work, i.e., the company must do well and survive. Thus, emphasis on the entrepreneurs’ values alone will not suffice. The company must be run profitably and viably as well. Otherwise, the values themselves are seen to have failed and therefore do not take root.

Importantly, however, the establishment of an ethical business culture is a work in progress for business leaders. Corporations, in particular, are notorious for engendering dysfunctional and irresponsible behavior among its members because of its highly bureaucratic and legally complex structure (Bakan, 2005). Business founders must, therefore, take unusual care in institutionalizing the succession process for the company’s business leaders to ensure the continuity of ethical values.

### BUSINESS ORGANIZATIONS AND HUMAN DEVELOPMENT

A specific ethical imperative of business and entrepreneurial organizations is the support for human development. The role of work in human development has been recognized by religious and development organizations. What follows will explain the conception of work and human development from the perspective of the Catholic Church and the International Labour Organization (ILO).

Work and its role in human dignity and development is a recurrent theme in Catholic Social Teaching (Curran, 2002; Pontifical Council for Justice and Peace, 2004) which formally began with the encyclical *Rerum novarum* (RN) written by Pope Leo XIII in 1891 in response to the growing social inequality which accompanied the Industrial Revolution (Leo XIII, 1891). On the recognizing the legitimacy of business, entrepreneurship and profit while honoring the critical importance of dignity in work, the encyclical stated:

working for gain is creditable, not shameful, to a man, since it enables him to earn an honorable livelihood; but to misuse men as though they were things in the pursuit of gain, or to value them solely for their physical powers - that is truly shameful and inhuman. (RN#20)

Alford and Naughton (2001) derived key requisite elements of human development from the more than a century-long documentary tradition of Catholic Social Teachings (Curran, 2002; O’Brien & Shannon, 1992); and related them to concrete elements of the modern workplace. They specified seven aspects of integral human development, namely: bodily, cognitive, emotional, social, moral, aesthetic and spiritual. For example, the opportunity of employees to grow in confidence as they take more responsibility and accept more accountability is an important indicator of emotional development in the workplace. On the other hand, the opportunity for employees to employ their skills
and talents through appropriately designed work indicates workplace cognitive development.

Using these two examples of workplace human development alone reveals some problematic indications in Philippine workplaces. The trend towards lower union memberships and increasing job insecurity in Philippine companies do not seem to support emotional development (McKay, 2006). Similarly, the emphasis on greater standardization and bureaucratization of work through franchising and reengineering do not seem to support cognitive development among workers.

Another important source of philosophical thinking and practical standards for workplace human development is the International Labour Organization (ILO), which has been a traditional promoter of workers’ rights and the decent treatment of working people since 1919 (International Labour Organization, n.d.-a). Recently, the ILO further refined its human development perspective through its concept of decent work. Juan Somavia, ILO’s Director-General, succinctly stated the organization’s aspiration thus: “The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity” (ILO, n.d.-b, para. 1). It further clarifies:

Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men. (ILO n.d.-c, para. 1)

The Philippines is among eight countries that are piloting the measurement of the level of decent work. The Department of Labor has developed the Philippine Labor Index, or the PLI (Bureau of Labor and Employment Statistics, 2006; Institute for Labor Studies, n.d.), which measures opportunities for work, freedom of choice of employment, productive work, equity in work, security at work and representation at work. Initial data for the PLI shows substantial shortfalls for the various dimensions of decent work. The highest deficit is in the area of representation at work. This is consistent with the disturbing trend in contractualization and lower union memberships earlier mentioned.

LEVELS OF ENTREPRENEURIAL HUMANISM

A number of frameworks on integral human development have been proposed (Cornwall & Naughton, 2003; Gasper, 2004; Vogt, 2005). This paper proposes a framework which builds on Cornwall and Naughton (2003) but which integrates traditional management conceptions of the role of human beings in the workplace and conceptions based on Catholic Social Teaching, Aristotelian and Kantian ethics. The proposed framework provides motivational justification for why entrepreneurs should create workplaces supportive of integral human development (Alford & Naughton, 2001) and decent work (ILO, n.d.-a,.-b,.-c).

The framework categorizes companies into levels based on management’s view of the principal role of human beings in the company. The levels are instrumentalism, collaboration and humanism.

The lowest level of entrepreneurial humanism is called “instrumentalism” or working through people. This approach is based on the view of human beings as principally inputs or resources to be used in the production process. Aside from the intuitive appeal of this management view for many entrepreneurs, it also has a long tradition of academic support. In elementary microeconomics, the production function is “defined as the specification of the minimum input requirements needed to produce designated quantities of output, given available technology.” (Production function, 2008, para. 1) The main resource inputs to a production function are generally defined to be
capital (K) and labor (L), and these are usually conceived of as interchangeable and to be controlled by management as it deems fit: “In the long run all factor inputs are variable at the discretion of management” (Production function, 2008, para. 10).

Another academic source for the instrumental view of human beings is management theory. Henri Fayol, acknowledged to be among the pioneers in management theory, explained in his classic General and Industrial Management published in 1916 that:

The responsibility of general management is to conduct the enterprise toward its objective by making optimum use of available resources. It is the executive authority, it draws up the plan of action, selects personnel, determines performance, ensures and controls the execution of all activities. (as cited in Wren, 2005, p. 225)

Along essentially similar lines, Koontz and O’Donnell, in the 1950s, succinctly defined management as “the function of getting things done through others” (as cited in Wren, 2005, p. 400). Thus, the entrepreneur who manages at the instrumental level sees human beings mainly as resources for the achievement of a company’s goals which will inevitably involve the maximization of profit. At this level, the entrepreneur would assess the company’s effectiveness based on the achievement of goals and the efficiency with which these goals are achieved. Because of the concern for efficiency, however, workers are mainly seen as expenses to be minimized; a view which can lead to depriving workers of security of tenure and living wages when efficiency so demands. Obviously, opportunities for integral human development for employees are minimal under this type of management.

The second level is called “collaboration” or working with people and is characterized by the view of human beings as partners or team mates in the work process — to be led and involved rather than simply to be directed by the use of authority.

Progressive management thinking beginning with the human relations school of management, which was typified by Elton Mayo in the 1930s (Sheldrake, 2003) and culminating in the quality circle movement which swept from Japan to the US in the 1980s (Evans, 2008), exhorted management “to turn its attention to the social side of behavior, to get people involved, and to thereby couple worker satisfaction and higher productivity” (Wren, 2005, p. 341). Because collaboration provides opportunities for addressing the social, achievement and recognition needs of workers, collaboration-oriented entrepreneurship is humanistically superior to instrumentalism. The entrepreneur at this level of management evaluates effectiveness not only through goal effectiveness and efficiency but also through the quality of collaborative and mutually satisfying relationships that are engendered in the workplace. It must be noted, however, that, at this level, the focus on collaboration is motivated mainly by its presumed positive contribution to productivity.

The third and highest level in the framework is simply called “humanism” or working for people. At this level, the integral development of employees as human beings becomes an explicit goal of the entrepreneur, higher in importance although supported by the traditional goals for financial viability. An explicit support for the humanistic priority of labor over capital in business can be found in Catholic Social Teaching:

Labour has an intrinsic priority over capital. This principle directly concerns the process of production: in this process labour is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause. (Pontifical Council for Justice and Peace, 2004, p. 174)

Catholic Social Teaching further points out that the organization of business in order to harness work has a particularly important humanizing role for workers. First, it allows workers to contribute to the social good and to respond to the Biblical calling in Genesis to “be fruitful and multiply, and
fill the earth and subdue it” (Laborem exercens, 1981, #4). Second, work builds human dignity:

Work is a good thing for man – a good thing for his humanity – because through work man not only transforms nature, adapting it to his own needs, but he also achieves fulfilment as a human being and indeed in a sense becomes “more a human being.” (John Paul II, 1981, #9)

Mele (2003), consistent with Catholic Social Teaching and Aristotle’s character-centered ethics (Nicomachean Ethics, 2008, para. 6), defines humanistic management as “a management that emphasizes the human condition and is oriented to the development of human virtue, in all its forms, to its fullest extent.” (Mele, p. 79). In particular, humanistic management acknowledges that the full development of people is possible only in community, i.e. an organizational setting where members have a common bond due to cooperation around shared goals and who relate with each other in solidarity, not merely because of functional interdependence (Durkheim, as cited in Merton, 1934; Leo XIII, 1891) but in a spirit of mutual care (John Paul II, 1987; Naughton, 2006) and duty (Durkheim, as cited in Dunman, n.d.).

Management literature explicitly referring to humanistic management as a concept is uncommon. Abraham Maslow (1998), however, argued that the essence of the idea in his writings on humanistic psychology can be applied to the industrial setting when he explained:

Management theory can stress roughly two products, two consequences: one is the economic productivity, the quality of the products, profit making, etc., the other is the human products, that is the psychological health of workers, their movement toward self actualization, their increase in safety, belongingness, loyalty, etc. (p. 99)

The ethical philosophy of Immanuel Kant would similarly justify humanistic management when it is aimed at the benefit of the human person through what is referred to as the categorical imperative. According to the principle: “So act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only” (as cited in Solomon, 2004, p. 108). For Kant, it would be immoral to treat employees merely as instruments of production because of their innate dignity and rationality as human beings. He argued that all people should always be treated as ends, i.e., in ways that respect their dignity and which appeal to their reason. Thus, Kantian ethics would find it problematic for instrumental managers to solely determine the fates of employees as such.

Entrepreneurs who manage at the humanistic level would assess their effectiveness based on how well they are able to create a community of work which uplifts the dignity and actualizes the development of employees. They would strive to ensure the provision of decent work as conceived by the ILO while continuously creating opportunities for holistic character growth (virtue) among employees. Because humanistic entrepreneurs realize that they must keep the business financially viable and rewarding in order to nurture the work community in a sustainable way, they see no conflict between humanism and financial goals – the latter is in the service of the former. Thus, workers are not only evaluated in terms of what they produce but more importantly according to what they become individually as persons and collectively as members of an organizational community (Cornwall & Naughton, 2003).

CASE EXAMPLES OF HUMANISTIC ENTREPRENEURSHIP

The pursuit of business and entrepreneurship for explicitly humanistic purposes as a matter of principle, alongside the more traditional concern for financial returns, can be better understood when observed in practice. Management literature contains numerous accounts of companies which prominently advocate decent treatment of workers alongside their pursuit of traditional financial goals.
HUMANISTIC ENTREPRENEURSHIP

(Employers Confederation of the Philippines, 2004; Ray & Rinzler, 1993). Some companies are covered by individual publications including, in the United States, ServiceMaster (Maciariello, 2000; Pollard, 1997), Reell Precision Manufacturing (Wahlstedt, 2000), Herman-Miller (DePree, 1989), Medtronic (George, 2003) and Southwest Airlines (Freiberg & Freiberg, 1996). Publications on local company practitioners of humanistic management are expectedly more rare but equally informative. These include United Laboratories (Ibañez, 2002) and PHINMA (Lim, 1996), Significantly, the importance given to people by these US and Philippine companies was instilled early on by their entrepreneurial founders.

For illustrative purposes, what follows is a description of the humanistic practices of two Philippine entrepreneurial businesses: San Jose Kitchen Cabinets and The Leather Collection.

San Jose Kitchen Cabinets
San Jose Kitchen Cabinets was established in 1982 as a furniture and sash maker. In 1987 the company started developing its kitchen cabinet line and in 1994 the company fully shifted to the kitchen cabinet business (San Jose Kitchen Cabinets, n.d.-a). While its factory and head office is located at the People’s Technology Complex in Carmona, Cavite, the company operates its own distribution outlets mostly located in malls and builder’s centers.

The humanistic elements in San Jose emanates from the values of the founder and General Manager, Oscar Chan, and are encapsulated in the company’s vision, mission and core values (San Jose Kitchen Cabinets, n.d.-b). The company’s formal statements of direction and beliefs are unabashedly spiritual. This is quite rare in companies but it has been observed even in US companies such as Reell Precision Manufacturing (Wahlstedt, 2000) or ServiceMaster (Maciariello, 2000; Pollard, 1997).

The various aspects of human development as discussed by Alford and Naughton (2001) are mentioned in San Jose’s official aspiration statements (Appendix A); most notably the cognitive (“intellectual”), bodily (“physical”), social (“love their neighbors”), aesthetic and the spiritual (“faith in God”) aspirations. And yet, the drive to create wealth through profitability is equally explicit.

The role of profit in San Jose is noteworthy, however. The company has adopted a 50% profit-sharing innovation as a feature of its people management approach for the past 20 years. Chan explains the system in the simplest terms possible:

All employees’ benefits are already part of the 50% employee’s share and therefore not anymore part of the company’s expenses. Also, before declaring the percentage share for the employees, the inflationary allowance due to equity is first deducted. (San Jose Kitchen Cabinets, n.d.-c)

Chan arrived at the 50% formula by conceiving of employees as full partners of capital. To ensure sustainability, however, his approach ensures that the value of capital does not diminish. This is accomplished by returning to capital the rate of inflation before computing the profit to be shared. Because normal benefits are considered part of the profit-share, this translates to about 10% of profit share during years of average sales using conventional accounting. The share can be as high as 43% with high sales, however, even under conventional accounting for normal benefits.

The company’s practice is a concrete example of what Gates (2002) has termed inclusive capitalism and is an active mechanism for spreading the benefits of capitalism as envisioned by Philippine laws. While the practice is completely voluntary on the company’s part, it is worth noting that bills mandating 10% profit share for companies have been repeatedly filed by a number of representatives in the past, including then congressman, Benigno Aquino III. When he became a senator, Aquino announced his intention to file a similar bill in the Senate (Rufino, 2007).

The Leather Collection (TLC)
The company was set up in 1991 by husband and wife Federico and Yolanda Sevilla as chairman of the board and CEO, respectively. The company
specializes in genuine leather goods which are often used as corporate gifts, specifically briefcases, bags, and desk accessories (The Leather Collection Company Brief, n.d.). The aspiration statements of TLC (Appendix B) enunciates the company’s humanistic commitments to “a highly empowered workforce”, “a work environment conducive to growth”, sharing profits with employees and striving to “be a vehicle for hanap-buhay in its fullness.” Yolanda Sevilla explains that “hanap-buhay”, which ordinarily translates to “livelihood”, refers within TLC to “the search for life in its fullness” (Y. Sevilla, personal communication, July 25, 2006). She elaborates:

The Leather Collection really exists as a vehicle for hanap-buhay, not just for my husband and myself but also for everybody who works here and works with us, … all our stakeholders. And so at the end of the day we’re approaching this … as stewards to whom much has been entrusted. Time, ours and others’, talents, ours and others’, networks, resources, all of these we believe have been entrusted to us. The other one is we need … so we’re approaching it as stewards and we’re looking at these as having been entrusted to us to enable us actually to live life in its fullness. We saw that it worked for us as a couple. We saw also that it worked for the people who worked with us. And so that concept has grown with us to the point where that’s what we’re about now.

TLC’s commitment to helping its employees grow and develop is evidenced by its approach to continuing employee training. All employees, even entry level ones, are encouraged to pursue training in more advanced skills to enable them to be assigned more complex work. The goal is for all employees to be multi-skilled. This skill base has helped the company deal with stiff low cost competition from Chinese imports. The company has responded by pursuing more differentiated and innovative designs and high margin export markets. The management knew that competing on cost with Chinese imports would compromise the company’s ability to meet its living wage commitments to its workers.

The extent of TLC’s commitment to employees was severely tested during the Asian financial crisis of the late 1990s. As orders shrank and losses piled up, management took extraordinary measures to forestall layoffs as much as possible. These included depleting the company’s retained earnings and management taking a 20% pay cut. When all these failed to prevent the inevitable retrenchment, management implemented the process with as much transparency and compassion as it could muster (Y. Sevilla, personal communication, July 25, 2006).

The humanistic approach of San Jose Kitchen Cabinets and The Leather Collection has resulted in extremely low turnover of employees. This results in growing and committed knowledge capital that has helped both companies meet various challenges.

PROPOSED CONCEPTUAL FRAMEWORK FOR HUMANISTIC ENTREPRENEURSHIP

Since this study aims to contribute to theory building in ethical entrepreneurship, what follows builds on the above exposition in order to provide a basis for eight hypothesized relationships which can be confirmed in future research. The hypothesized relationships among key constructs are depicted in the conceptual framework in Figure 1. The principal outcome (dependent variable) which the framework proposes to explain is employee integral human development. In this regard, the first hypothesis posits the organization’s ethical cultural development as the independent variable (Reidenbach & Robin, 1991; Schein, 1992):

H1: The organization’s level of ethical culture development positively influences employees’ integral human development.

The level of ethical development of a company’s culture depends on the ethical development of the
entrepreneur (Treviño & Nelson, 1999), which leads to the next hypothesis:

H2: The founding entrepreneur’s level of ethical development and virtues (cognitive moral development and character) positively influences the organization’s ethical culture development.

The influence of the entrepreneur’s ethical development on that of the company culture depends on the cultural leadership skills of the entrepreneur (Schein, 1992). Formally:

H3: The founding entrepreneur’s culture leadership skills positively moderates the influence of the entrepreneur’s ethical development and virtues on the organization’s ethical culture development.

As Schein (1992) has emphasized, cultural values from founders take root only if they are seen to “work”. Thus:

H4: The moderating impact of culture leadership skills on the influence of the entrepreneur’s ethical development on the company’s ethical development is, in turn, positively moderated by the company’s financial viability.

Naturally, the financial viability of the company is a function of the entrepreneur’s business skills (Hisrich & Peters, 1998). Thus:

H5: The entrepreneur’s business skills and creativity positively influence the company’s financial viability.

Collins and Porras (1994) showed that long-surviving companies looked beyond profit and into being trustworthy companies, which in turn supported financial viability. Thus:

H6: A company’s ethical culture development positively influences its financial viability.

Consistent with Schein’s (1992) conception of culture as developed by “what works”, the competitive advantage of being an ethical company depends on industry norms and regulatory milieu. In other words, is the environment such that ethics pays? Thus:
H7: The positive influence of the company’s ethical cultural development on financial viability is positively moderated by industry and institutional support for ethical business practices.

Finally, employee growth is viewed as a source of competitive advantage as employees become more skilled, committed and collaborative in helping the company achieve its goals and in prudently protecting its interests (Evans, 2008; Sheldrake, 2003; Wren, 2005). Thus:

H8: Employees’ integral human development positively influences the company’s financial viability.

The interrelationships of the variables in this framework trace a virtuous circle of reinforcing influences which results in sustainable improvements in a company’s ethical development and financial stability. The complexity of the relationships hypothesized in the framework above suggests the necessity of a case study approach (Yin, 2002).

CONCLUSION

This study has explored the role of entrepreneurial business in a developing country such as the Philippines and, in particular, its potential for the provision of decent work and the promotion of the integral human development of employees as its contribution to national development.

While such a role for business enterprises is ultimately founded on the personal character and ethical orientation of the founders of such business establishments, it can be coherently linked with business strategies in ways that help companies become sustainable.

It is further proposed that certain hypotheses about the dynamics of humanistic entrepreneurship be tested in future research in order to better understand how more people-oriented businesses can be successfully formed in order to help the country achieve its long sought-after goal of greater prosperity for more Filipinos.

REFERENCES


Daly, H. E & Cobb, J.B. (1994). For the common good: Redirecting the economy toward community, the environment, and a sustainable future (2nd ed.). Boston: Beacon Press.


Graduate School of Business, De La Salle University. Manila.


Appendix A

Formal statements of aspirations of San Jose Kitchen Cabinets


PRIMARY OBJECTIVE (Company Mission and Vision)

Primary Objective (why we established the company. The reason why we believed the company should continue to operate)

1. To contribute in the study and promotion of Social Justice (in particular profit sharing).
2. To provide employment to people of shared values who are committed to their faith in God.
3. To provide the environment and training necessary for spiritual, intellectual, and physical development of our employees.
4. To create wealth for company, employees, evangelization and Government.
5. To help spread the Good News

Core Values

1. Personal Values
   * Discipline
   * Social Justice (Fairness to everyone)
   * Commitment to our faith in God
   * Humility
   * Strong Willed Leadership
   * Health Consciousness
   * Frugality

2. Customer Care Values: Genuine, Honest and Beneficial to the Customer.


Big Goal: What we would like to become in the next 10 to 30 years.

1. A community of people who love God with all their heart, soul, mind, and strength and who love their neighbors as themselves.
2. Freedom from ignorance, poverty and insecurity for our employees.
Appendix B

Formal Statements of Aspirations of The Leather Collection

From Y. Sevilla (personal communication, December 1, 2007).

Vision

- We seek to become a world class Filipino company that fosters:
  - Mutually nurturing relationships between the company and its stakeholders (customers, workforce, creditors, suppliers & stockholders);
  - A total commitment to excellence;
  - Leadership by example;
  - A highly empowered workforce;
  - A work environment conducive to growth;
- A balanced life, and
- Community involvement

In the spirit of STEWARDSHIP

Mission

- TLC exists to be a vehicle for hanap-buhay in its fullness
- To generate bottomline profits for all its stakeholders:
  - Owners - return on equity
  - Employees - profit share
  - Customers - value for money
  - Creditors - return on investment
  - Suppliers - profits
  - Community
- Taxes contributed
- Jobs & livelihood generated
- Collateral enterprises developed