Is It Possible To Have a Business Based on Solidarity and Mutual Trust? The Challenge of Catholic Social Teaching to Capitalism and the Promise of Southwest Airlines

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Pope Benedict XVI in the July 7, 2009 Encyclical *Caritas in Veritate* (Charity in Truth) suggests that our times, characterized by a financial crisis and poor economic performance, require a new civilizing of the economy.\(^1\) We must move toward a world of business which is based not merely on contracts but rather based on what the Pope calls “gratuitousness,” mutual trust and solidarity, for this would be a truly human world.\(^2\) This study will examine this position of *Caritas in Veritate* and discuss how it relates to earlier Catholic social teaching. It will then outline the contours of such a business based on solidarity and mutual trust. Finally the study argues that there is a gradual paradigm shift underway which reflects the observations of *Caritas in Veritate*. This shift moves us toward an expanded role of the purpose of business, and this expanded role is clearly present in the U.S. firm Southwest Airlines.

Civilizing the Economy and Catholic Social Teaching

A constant theme of Catholic social teaching (CST) is that while both the state and the market are necessary and good in themselves, they can easily lead to dehumanized relationships, relationships that have become commodified and bureaucratized. To overcome this dehumanization, CST stresses the need for “mediating institutions,” those voluntary organizations, or what are often called organizations of civil society, which are not based on contracts controlling buying or selling,

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\(^1\) *Caritas in Veritate*, 38.

\(^2\) *Caritas in Veritate*, 36.

or services. The organizations of civil society, for example, the family, trade unions, fraternal organizations, churches, etc., are based on trust and gratuity and hence allow the human person to flourish.

Pope Leo XIII in the 1891 encyclical *Rerum Novarum* offered a vision of society where the state has a role in influencing the economy toward the common good but a key role for the state is to encourage and enable “mediating institutions,” those groupings between the individual and the state that foster freedom and initiative. The fear is that inordinate power concentrated in either the market or the state would stifle initiative and freedom and thus hinder the development of the person.

In 1931 Pope Pius XI issued *Quadragesimo Anno* and that encyclical focused on three principles that have been dominant in all subsequent CST: the need to protect the dignity of the person; the concern that organizations be no larger than necessary—subsidary; and the necessity for mediating structures between the person and the state. Society is a community of communities and these communities are all the various groupings that people find necessary or helpful. The role of the state is to be in the service for society, facilitating the cooperation and well-being of all these voluntary organizations or mediating structures.

Building strong “mediating institutions” continues to be a theme in Catholic social teaching. Organizations such as schools, churches, trade unions, ethnic groups, and so on, offer individuals an opportunity to have public relationships founded not on a contract but on a common vision. It is these relationships that enable one to become a person, one with others, envisioned by CST. In these organizations, one is not merely a consumer or a voter bonded by economic contracts or state bureaucracies, but rather, the glue is a common vision based on trust and solidarity. As Pope John Paul II writes in *Centesimus Annus*, the social nature of the person is only fully realized in the various intermediary groups.

Pope Benedict in *Caritas in Veritate* reflects on the crucial role of solidarity and common purpose and vision in shaping an authentic person and he is concerned that civil society is being overwhelmed by the market, diminishing the development of the person.

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4 *Quadragesimo Anno*, 80.
5 *Centesimus Annus*, 13.
When both the logic of the market and the logic of the state come to an agreement that each will continue to exercise a monopoly over its respective area of influence, in the long term much is lost: solidarity in relations between citizens, participation and adherence, actions of gratuitousness, all of which stand in contrast with giving in order to acquire (the logic of exchange) and giving through duty (the logic of public obligation, imposed by state law.\(^6\)

The point being made is that in the interplay among the market, the state and civil society there is a humanizing of the economy, or in Benedict’s words, a “civilizing” of the economy.\(^7\) With the overshadowing of civil society, primarily by the market, human relationships are underdeveloped, and hence, the economy is less “civilized.” A key point, however, in Caritas in Veritate and a new emphasis in CST, is that a business itself can function like a civil society institution, that is, solidarity and mutual trust, authentic human relationships, can thrive in and even energize a business.\(^8\)

**Contours of a Business Based on Mutual Trust and Solidarity**

While Caritas in Veritate does not spell out what a business based on solidarity and mutual trust would look like, I propose some features here and then conclude with an example.

1. The business must not be single-mindedly focused on its own profits, but must have a wider purpose that includes taking on some of the problems of the wider society. Solidarity means that human beings are by nature interdependent and this solidarity should show itself by activity and policies, especially for crisis situations, that advance that common good.

   In fact, there are a growing number of companies that not only seek their private good, but also the common good, and they embody this expanded purpose in their mission statement and core values. Jerry Porras and James Collins in *Built to Last* call such companies that have long-term, excellent financial performance and an expanded purpose “visionary companies,” companies which believe that doing well and doing good are not opposites.\(^9\) For example, Merck Pharmaceutical Company has a mission statement which states that the company

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\(^6\) Caritas in Veritate, 39.

\(^7\) Caritas in Veritate, 32.

\(^8\) Caritas in Veritate, 36-39.

"devotes extensive efforts to increase access to medicines through far-reaching programs that not only donate Merck medicines, but also help deliver them to the people who need them." Merck sees its purpose as to preserve and improve human life.¹⁰ Hewlett-Packard speaks of its purpose as to make technical contributions for the advancement and welfare of humanity.¹¹ The new understanding of business as a socially responsible political actor in the global economy is in response to a growing number of business people who want to make a difference by taking on some of the problems of the wider society. Asking about ultimate purpose, about what most deeply matters in life, is to focus on what some call spiritual values in business and this is a growing trend. Pope John Paul II captured the spirit of this trend when he wrote in Centesimus Annus (35) that the purpose of business is not simply to make a profit, but rather, business is a community of persons and that this community can foster the development of society as well as people.

A new initiative that demonstrates the attractiveness of this widened purpose of business is the United Nations Global Compact. Founded in 2000 by the then-Secretary-General of the UN, Kofi Annan, the Global Compact asks a company to expand its role, especially in developing countries, to include advancing human rights, labor rights, environmental issues and anti-corruption issues. As of 2012, there were over 6,000 businesses in 135 countries which had become signatories to the Global Compact.¹² To be sure, there are various motivations for a company joining the Compact and taking on a project in the wider society. For example, General Electric has spent over $20 million in outfitting medical clinics in rural sub-Saharan Africa and educating local people in the management skills required to operate and maintain these facilities.¹³ The CEO of GE, Jeffery Immelt, reflecting on these sorts of projects, commented: "The reason people come to work for GE is that they want to be about something that is bigger than themselves. People want to work hard, they want to get promoted, they want stock options. But they also want to work for a company that makes a difference, a company that is doing great things in the world."¹⁴

Apart from moral reasons for espousing a wider role of business in society, there is much evidence that business leaders also see it as a way to regain the trust of the public. Surveys show that public trust in business institutions and leadership is at a low level. For example, the 2011 Edelman Trust Barometer—an annual survey that measures public trust in business and institutions—found that in the U.S. only 50% trust information about a business provided by the CEO. Only 25% of people in the U.S. trust banks to do the right thing.\textsuperscript{15} Research has shown that one of the ways to retrieve trust in business is for business to be perceived by the public to be seeking not only its private good, but also the common good. When business is perceived as beneficent, trust levels rise.\textsuperscript{16} When trust levels about business rise, there is much less pressure on elected officials for new rules, regulations and laws, and hence, transaction costs are kept low. Thus business is increasingly trying to meet society’s expectations and take on some projects to assist the wider society. The Sarbanes-Oxley law regulating accounting and the new laws regulating financial institutions are examples of what happens when citizens do not trust business.

2. The second feature of a company that is based on mutual trust and solidarity and not simple on contracts is that it must be vision and value led and these values must be basic human values. Advancing the common good implies tapping into the shared concerns and purpose espoused by most, such things improving health, preserving the environment, enhancing education and, in general, improving the quality of life.

While many companies have wonderful mission statements and core values which claim to portray their sense of purpose and priorities, a careful examination reveals that some never realize these values in practice. It is not enough to have a lofty philosophy of the organization, but rather, a company must also have business plans with timeframes and goals that integrate these values into daily practice. Individual employee plans must reflect the philosophy of the firm and HRM (Human Resource Management) must hire the right sort of persons and motivate and develop them to carry forward the espoused values.

3. The third feature of a firm that is based on mutual trust and solidarity and not simply on contracts is that it respects the dignity of all significant stakeholders involved with the business. Many

\textsuperscript{15} See \url{http://www.edelman.com/trust/2011}.  

businesses focus on one stakeholder, often the stockholder. Others focus on the consumer, and try to offer the best quality products at the lowest price. Some business have been very successful employing this strategy, for example, Wal-Mart. Until recently, however, Wal-Mart was severely criticized for neglecting employees and subcontractors. Many claimed that Wal-Mart did not pay a living wage and purchased products made in developing countries under sweatshop conditions. While some report that these issues have been remedied, the point here is not to settle these questions, but to note that the ideal firm envisioned by Pope Benedict would attend to the dignity of all significant stakeholders involved. Paying a living wage respects the dignity of the workers and enables them to exercise their right of participation in the society. The person, created in the image and likeness of God, whether he or she be a consumer, a stockholder, an employee, a sub-contractor in a developing country, or a member of the local community, must be respected.

Can we find a firm that embodies the three features discussed above: 1) A firm that has a wider purpose than making money and seeks the common good and not simply its own private good; 2) One that is led by basic human values and not simply by the economic values of efficiency and productivity; and 3) One that respects the human dignity of all significant stakeholders, especially employees, and does not single-mindedly focus on shareholders or customers?

The Case of Southwest Airlines

In a class discussion on firms that seem to embody solidarity and mutual trust, one of my MBA students told a story that his father had passed on to him. The father worked for one of the major U.S. airlines and his job was to hire pilots. Since the firm paid more than most airlines, the job of finding and employing highly qualified pilots was not too difficult. The father, however, was never very successful in hiring pilots who worked at Southwest Airlines. Even though he would offer them a higher salary than they received at Southwest, pilots hardly ever accepted the offer and left Southwest. My student was intrigued by his father’s observation and asked to have the company discussed in my course on Spirituality and Business. Although Southwest is not a perfect company, it does embody the ideals envisioned by Pope Benedict when he wrote of a company civilizing the economy.

Founded by Herb Kelleher and Rollin King in 1971, Southwest Airlines has been profitable for most of its history—over 36 years. Fortune
magazine called it "the most successful airline in history."\textsuperscript{17} It is often listed in Fortune's list of the "100 Best Companies to Work for in America" and it is widely known for turnover rates lower than other airlines.\textsuperscript{18} In 2010, Fortune listed it number 1 among the most admired companies in the world.\textsuperscript{19} With over 35,000 employees, Southwest has enjoyed 36 years of profitability with a total operating revenue of $11.0 billion and a net income of $178 million in 2008.

The Purpose of Southwest Airlines

When Herb Kelleher and Rollin King first discussed the founding of Southwest Airlines in 1971 they wanted to make a difference, they wanted to "democratize the skies." They wanted to create an airline that would have a cost structure that would enable people who were then taking the bus or driving a car to find it affordable to fly. The purpose of the business was to democratize the skies, to give more people the freedom to fly. Their vision was to have a world where everyone would have the ability to fly, to see the world, to do their business, and to enjoy life. Their mission, the way they wanted to realize the vision, was to shape a company with low fares and cost structure and high morale\textsuperscript{20} Today with over 3,200 flights a day, with 500 Boeing 737 aircraft, serving over 65 cities, and a profitable balance sheet, it would appear they have been successful.

While the company has never strayed from its founding purpose, and has never single-mindedly focused on profits, it is remarkable that it is one of the few airlines in the world that consistently makes money. Analysts note that if you purchased $1,000 worth of Southwest stock at the IPO in 1972. In 2010, it would be worth $1.4 million. In the last 40 years the stock has gone up 138,000%.

The Core Values of Southwest

Southwest is based on fundamental human values: freedom, enhancing the quality of life and creating a humane workplace. CST has always

\textsuperscript{20} See J.B. Bird's interview with Herb Kelleher on July 9, 2002 at Southwest headquarter in Dallas at http://www.mcombs.utexas.edu/news/pressreleases/Kelleher_int03.asp>.
anchored its teaching in the inherent dignity that flows from being created in the image and likeness of God. While Southwest does not explicitly allude to this religious foundation, it does have a value framework and policies that reflect this respect for the person. Management systems and practices for employees are designed to enable individual flourishing on the job. The firm is over 80% unionized and unions are most welcome. Since 1973 there has been a profit-sharing plan and today employees own eight percent of the shares of the company. Diversity is a treasured value in the company and all forms of unfair discrimination are not tolerated. Employees feel they are listened to and their ideas and suggestions to enhance the mission and regularly sought by management.

Southwest is a firm that many talented people want to join. In 2008, the company received 199,200 resumes and hired 3,350 new employees.21

**Who Are the Significant Stakeholders of Southwest?**

The Corporate Citizenship Report entitled, *Southwest Cares: Doing the Right Thing*, opens with a good summary of the company's objective: "The 2008 Southwest Cares Report is dedicated to the Employees, Customers, Shareholders, and other Stakeholders of Southwest Airlines, who strive each and every day to do the right thing for our planet, our communities, our people, and our suppliers."22 While many companies could be cited for their exemplary record in working with their shareholders, customers and the wider community, very few firms follow the principles of CST for employees as completely as does Southwest. What distinguishes Southwest is that because of the way it treats employees, it has developed a corporate culture where solidarity and mutual trust, hence authentic human relations, can thrive and actually energize the business to be more efficient and productive. This vision, portrayed by Pope Benedict XVI in *Caritas in Veritate*, is realized at Southwest and thus Southwest truly is the sort of firm that can civlize the economy.

Based on the dignity of the individual person, CST focuses on several norms to guide a company: the need for community; the embracing of fair treatment, lack of discrimination and encouraging diversity; the forming

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of channels for employee association and participation; the focus on the connectedness of all stakeholders, solidarity; and the developing of an attitude of stewardship toward the physical environment.\textsuperscript{23}

**Community**

According to the firm, employees should have a Warrior Spirit, and a Fun-Loving Attitude, a servant's heart. This is expressed well by a pilot: "We're predisposed to liking each other—I like the flight attendants and even that guy (an operations agent) over there and I don't even know him. I guess it's mutual respect."\textsuperscript{24} Employees feel respected by officers of the firm and they are encouraged to be fun-loving while at work. Unlike many businesses, Southwest is very clear that employees come first, the premise being if employees are treated very well, they in turn will deliver outstanding customer service, and this will keep the company profitable.

**Equality**

Fair treatment, lack of discrimination, and encouraging diversity flow from the mutual respect is so prevalent at Southwest. A Diversity Council, a University of People (employee training programs) and employee recognition programs are some of the ways Southwest advances equality.

**Participation and Association**

Southwest has one of the highest percent of employees represented by unions of the major airlines—about 83 percent. As a president and CEO of Southwest put it: "We treat all as family, including outside union representatives."\textsuperscript{25} With the lowest labor conflict history in the industry, Southwest management is known for its respect for its employees' choices in unions.


\textsuperscript{24} Quoted in Gittell, *The Southwest Airlines Way*, 35.

\textsuperscript{25} Quoted in Gittell, *The Southwest Airlines Way*, 165.
As indicated above, the company has had a profit-sharing plan since 1973 and today employees own about eight percent of the shares. With no layoff policy in place for over 30 years, even in bad times, employees trust management, and there are many avenues for full and frank discussion within the firm. The company stresses not only functional expertise, but also relational competence when hiring and this enhances the possibility for active participation on all levels. One analyst attributes the great success of Southwest to shared goals, shared knowledge, and mutual respect.\textsuperscript{26}

\section*{Solidarity}

Stressing the connectedness between business and society, Southwest has programs in employee volunteerism, community outreach, charitable contributions, and corporate social responsibility. For Example, in 2008, employees donated over 20,000 volunteer hours to the wider community, the company contributed $6.6 million to various charities, and the firm partially supported 69 Ronald McDonald Houses (residences for parents visiting children in hospitals for cancer). In 2009, Southwest was recognized as one of the Top 50 Companies in Corporate Social Responsibility.\textsuperscript{27}

\section*{Stewardship}

How one uses the gifts of creation, personal talents, as well as the physical environment is the focus here. Sustainable development and ecological issues are covered in some detail in the booklet \textit{Southwest: Doing the Right Thing}.\textsuperscript{28} Issues such as fuel efficiency, recycling programs, waste reductions, emissions reductions, water savings/water pollution reductions and reducing Greenhouse Gas emissions are ongoing projects for Southwest.

\section*{Conclusion}

\textit{Caritas in Veritate} suggests that a business firm in our capitalist economy could be based on solidarity and mutual respect and not merely on

\textsuperscript{26} Gittell, \textit{The Southwest Airlines Way}, 36.

\textsuperscript{27} The Boston College Center for Corporate Citizenship and Reputation Institute has a CSR Index, indicating the public's perception of more than 200 companies. See <http://www.bccc.net/index.cfm?pageId=2053>.

\textsuperscript{28} See note 22.
contracts. Such a firm would lead the way in humanizing the economy and also avoid wholesale financial failures such as those experienced in 2008-09. This study argues that Southwest airlines is the sort of firm alluded to in Caritas in Veritate. It shows how the company has married the values and vision of CST with business, resulting in a civilized and also a most productive and efficient organization.