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# **Founder-CEO values, the conception of ownership and governance models illustrated in a case study of Auchan.**

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*Summary:* This article looks beyond economic and institutional factors to address the role of corporate founder-CEO values when determining ownership structures and corporate governance mechanisms. We take the Upper-Echelons Theory as our central premise, according to which a firm reflects the experience and values of those occupying its senior executive positions, to explain the existence and persistence of certain atypical methods (with reference to the dominant model), in matters of corporate governance. The Auchan Group represents one such atypical case and provides a concrete example of the effects of a particular value system and how its conception of ownership affects its governance model. In particular, in the case of Auchan, it appears that the evolution of the ownership structure is not dictated by the need to protect shareholder rights, but rather it follows a value system which considers that corporate ownership and its related rights come with a lasting responsibility to the firm's staff.

**Keywords:** value system, concept of ownership, corporate governance.

Can we reasonably neglect the (moral and religious) values of corporate upper echelons when seeking to explain the choice of a capitalist structure and the implementation of a corporate governance system? In fact, the currently dominant approach to governance offers an essentially technical explanation of the phenomenon, based on the ability of a particular method to minimize agency costs.

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This explanation was significantly inspired by the work of Berle and Means (1932), published after the Wall Street crash of 1929, which explained that a great deal of dysfunction in major publicly traded companies was due to the separation of ownership and control, the former being typically held by numerous shareholders, the latter exercised by a small number of salaried directors. Berle and Means showed that the separation of these functions, creating passive shareholders reduced to the sole function of assuming risk on one side and a board with executive decision-making powers on the other, could potentially lead to conflicts of interest. The existence of such conflict was later explained by the Agency Theory (Jensen and Meckling, 1976; Fama and Jensen, 1983) which, furthermore, provides the now prevalent justification for certain methods of governance by insisting upon their purported ability to curtail loss caused by self-interested executive behaviour detrimental to anonymous shareholders trading on the stock market. For Berle and Means (1932), the separation of ownership and control is a direct result of the empirical evidence that ownership structure is increasingly dispersed within ever-larger companies. As a result, this dispersal of ownership has deprived shareholders of the necessary power and incentive to exercise effective control over executive behaviour. It coincided with the spectacular development of the financial market enabling the ownership of large companies to be passed outside of the founding family while ensuring continuous professional management (Lazonick and O'Sullivan, 1997). The dominant model of governance, therefore, appears to be closely linked to the expansion of the financial market and a particular manner of holding and exercising ownership rights.

A large portion of research in the financial field, particularly that related to the *Law and Finance* school of thought (La Porta et al., hereinafter LLSV, 1998, 1999), seeks to explain corporate ownership structure according to governance mechanisms designed to protect the interests of financial investors. The dominant approach focuses on intentional and standardized governance mechanisms, including the law, aimed at protecting all investors, especially external ones, who have far less access to information. For Shleifer and Vishny (1997), "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment [...and] that managers do not steal the capital" (p. 737). For LLSV, the existence of governance mechanisms that protect numerous and anonymous shareholders is the key to an effective financial market that makes the resulting dispersal of capital and the separation of ownership functions viable.

In the absence of a governance model based on strong legal and regulatory protections for shareholders (regardless of their identity) and their interests, the (agency) cost resulting from the separation of ownership and control is exorbitant.

In countries where legal protection is allegedly weak, such as France, this would explain why it is most often the founding members who retain ownership (LLSV). Therefore, a controlling shareholder can effectively monitor agency costs in countries where legal protection is weak. This would explain a particular type of shareholding (concentrated within the founding family) by default. In other words, the majority of companies in a country like France maintain this block shareholding for the simple reason that, given the deficient regulatory framework, opening up too much capital to a liquid financial market would not be viable. Concentrated ownership is thus the imposed choice. However, this explanation poses a certain number of problems. Namely, while the number of companies with concentrated ownership is relatively high in France (La Porta et al., 1999; Faccio and Lang, 2002), Berle and Means-style firms do still exist and have survived for considerable periods of time. Some examples would be firms such as Société Générale and Axa (whose CEOs were fervent promoters of the dominant *Law and Finance* notion of governance cf. Wirtz, 2008, 2009). These French firms have widely dispersed capital and their shares are traded on the Euronext stock market which, we note, now functions much like the New York Stock Exchange. This clearly shows that the Berle and Means model can survive in France, where shareholder protection levels are nevertheless low according to the LLSV assessment scale. We observe, for example, that in a country like the United States, with a high level of protection, the Berle and Means style firm is not the only model encountered and furthermore, this model has been in decline for some time in favour of increasingly concentrated shareholding (Holderness et al., 1999; Holderness, 2009).

This observation leads us to question other explanations concerning the adoption of a certain ownership holding pattern and to reverse the causal link between the concept of ownership and the governance mechanisms implemented. Thus, the chosen ownership model would produce a particular configuration of governance and not the other way around.

Following the example of the Upper-Echelons Theory (Hambrick and Mason, 1984), we start from the premise that an organization's values reflect, to a certain extent, the values of its top managers, meaning that ownership structure and governance mechanisms potentially depend on other factors than the management of conflicts of interest; namely, factors related to the top managers' values.

Surely then, it would be wise to examine a unique example of governance; one that differs greatly from the dominant model, and to study to what extent its configuration is derived from a value system unlike that of the dominant model. The Auchan group is one such example,

because despite its significant development and size, its capital has never been opened up outside of the Mulliez family circle or Auchan employees.

Therefore, a study of this special case should make it possible to illustrate the relationship between corporate top management values, the notion of ownership and the governance model. Auchan is one of France's largest retail and distribution groups. For fifty years it has operated according to a particular corporate governance system. Despite its significant size today (according to *L'Express* on 18/05/06, it is France's 11<sup>th</sup> largest firm with a turnover of €33.6 billion) it is an unlisted privately-owned enterprise. 85% of the capital is held by the Mulliez family through its family association (AFM), which also controls the family's other stores (including Decathlon and St. Maclou). The family association currently has approximately 500 members. Despite its size, it has remained stable over time. It is governed by rules inspired by the 1961 social encyclical of Pope John XXIII (*Le Nouvel Observateur*, 29 June 2006 edition). The remaining capital is held by the group's employees through a structure called ValAuchan. Very early on, Gérard Mulliez, the group's founder, implemented a share-holding mechanism enabling employees to own part of the tool of their labour, so to speak. At the time, he was a pioneer in this matter, well in advance of the legislation on employee profit-sharing and shareholding schemes.

The group chooses to remain unlisted, preferring self-finance and ensuring that the capital remains within the family. The supervisory bodies thus enjoy continuity and Auchan does not focus its communication on 'best practices' of governance, a subject that is becoming increasingly institutionalized in French capitalism (cf. Wirtz, 2008 a. and b.). Auchan is therefore a case that seems to resist certain types of isomorphic pressure (Aguilera and Curevo-Cazurra, 2004) concerning governance practices. From here, we might question the specific beliefs that underpin this model of governance and may provide an understanding of its particularities. The decision to remain unlisted is a choice, not a necessity. Moreover, the group's top managers practice a value system that is explicitly inspired by the social doctrine of the Catholic Church. Therefore, the case study of Auchan, whose governance model is unique in the contemporary French economic landscape, seems well-suited to illustrate a positive explanation of a private family shareholding structure (as opposed to the default explanation offered by LLSV) despite strong growth and successive generations.

We will show how Auchan's specific ownership holding structure and associated governance mechanisms are part of a reasoned choice and not from the lack of a viable alternative.<sup>1</sup> This

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<sup>1</sup> Carrefour, another major retail and distribution company (same sector, same national context) also started out as a family venture. However, the family took the opposite approach and opened itself to the financial market.

choice was strongly encouraged by a value system that borrows, in this particular case, from the Catholic social doctrine. This research will highlight the role of the value system of those in the upper echelons (Hambrick and Mason, 1984) as a key explanatory variable in the implementation and longevity of certain governance mechanisms.<sup>2</sup>

The following section of this article is structured as follows. The first part will underline a few fundamental concepts related to the issue of corporate governance focusing in particular on the concept of ownership that underpins the dominant model today. This model, being focused on the protection of anonymous and passive shareholding, provides the basis for codes of conduct now largely commonplace within major listed companies in France. In order to understand the link between the value system and the governance model in the case of Auchan, we must present the *corpus doctrinaire* from which the group's founding top managers have taken inspiration. Therefore, the second part of the article is dedicated to outlining the notion of ownership as described in the Catholic Church's social doctrine. We will see that by placing people and the quality of human relations (rather than the financial markets) at its core, the social doctrine leads to an approach to governance which differs from the ownership model of the Berle and Means style corporation.

The third part of this article will be devoted to a detailed analysis of Auchan. In particular, we will identify the specific concept of ownership upheld by the group's founder, highlighting the central elements of the Catholic Church's social doctrine present in its discourse and the justification of the governance mechanisms in place. This will enable us to characterize the

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The family now holds only a marginal place within the ownership structure, and it certainly wasn't the supposedly weak legal protection offered to stock market investors that prevented the company from going public.<sup>1</sup> On the contrary, a specific type of ownership was chosen, transferable to third parties via the financial market, which had consequences in terms of governance.

<sup>2</sup> Roe (2000), in particular, highlights the role of political ideology in the emergence of this separation-of-functions ownership model, now characteristic of American capitalism. For Roe liberal political ideology is what created the premise for Berle and Means type firms, despite their inherent instability. In this context, the governance mechanisms designed to protect financial investors are not the cause, but the consequence of the separation-of-functions ownership model, though these two dimensions later had a tendency to mutually support and reinforce each other. Wirtz (2002) also identifies ideology as a central vector in the emergence of governance systems. However, he points to the concept of mental models, borrowed from North's institutional analysis, which is broader than the political ideology as defined by Roe.

Roe's political explanation is based at a macro analytical level, concerning the stylized characteristics of national corporate governance mechanisms. Consequently, it is incapable of explaining the variability of governance mechanisms between companies located within the same country. Our own analysis is based at a micro analytical level, where management team values are analyzed as a decisive factor in a company's orientation, setting it apart from that of its counterparts within the same national context. Therefore, we adopt the central premise of the Upper Echelons Theory (Hambrick and Mason, 1984; Carpenter et al., 2003; Hambrick, 2007), according to which a company reflects the experience and values of its top managers.

specific structure of Auchan's governance mechanisms and to demonstrate the existence of a link with a value system rooted in Catholicism in the North of France.

## 1. The dominant model of governance and the underlying concept of ownership

### 1.1. Corporate governance: definitions and mechanisms.

Corporate governance may be defined as “the set of mechanisms that define powers and influence decisions of senior executives, in other words the mechanisms that govern their behaviour and define their range of discretionary action” (Charreaux, 1997, p. 421-422). This definition highlights, among other things, the systemic nature of all governance mechanisms (“set of mechanisms”) which, far from being limited to one single supervisory body such as the board of directors, includes other regulatory bodies to evaluate managerial behaviour at different levels and in various ways.

Charreaux proposes the following typology (table 1) of governance mechanisms, allowing for the fact that the actual combination and interaction of governance mechanisms may differ greatly from one firm to another. This general typology will be applied to our case study enabling us to present the particularities of Auchan's governance system in a methodical way. We will then show that the specific elements of this table for a given firm depend on that firm's own concept of ownership which itself is not an inevitability; rather it may result from the choice of a particular value system.

**Table 1** – *Typology of governance mechanisms according to Charreaux (1997)*

	<b>Specific mechanisms</b>	<b>Non-specific mechanisms</b>
<b>Intentional mechanisms</b>	<ul style="list-style-type: none"> <li>- Direct shareholder control (face to face interactions)</li> <li>- board of directors</li> <li>- remuneration systems</li> <li>- formal structure</li> <li>- works council</li> <li>- company union</li> </ul>	<ul style="list-style-type: none"> <li>- legal and regulatory environment (corporate law, labour law ...)</li> <li>- national unions</li> <li>- statutory auditors</li> </ul>
<b>Spontaneous mechanisms</b>	<ul style="list-style-type: none"> <li>- informal networks of trust</li> <li>- reciprocal</li> </ul>	<ul style="list-style-type: none"> <li>- goods and services market</li> <li>- financial markets</li> </ul>

	monitoring among managers	- financial intermediation
-	enterprise culture	- managerial labour market
-	reputation among employees (keeps promises)	- business culture training market

*Source: Charreaux (1997, p. 427)*

## 1.2. Passive ownership and the financial market at the heart of the dominant approach to governance.

Agency Theory provides the logic behind the dominant governance approach, (cf. Daily et al., 2003). It has developed based on a particular model of ownership, that of the big firm said to be ‘managerial’ due to the highly dispersed nature of ownership among anonymous and scattered shareholders who are unlikely to interfere with the decisions of professional managers. In this case, the passive nature of ownership exposes the shareholders to the risk of partial expropriation by the CEO. The potential for the management’s interest to conflict with the almost powerless anonymous shareholders is the central premise of Agency Theory, which sees in it a source of cost (agency costs) which must be managed through governance mechanisms to become a source of value creation for the shareholder. The purpose is thus to maximize the market value of the shares, independently of the shareholders' particular identity and aspirations.

The dominant model of governance is built upon conceptual foundations that are very much inspired by liberalism. Fama and Jensen, the two key contributors to the positive theory of agency are of the Chicago school. Charreaux (2003, p. 139) notes that “the liberalism defended by Jensen is as much influenced by Austrian economists, such as Hayek, as by his time at the University of Chicago. Moreover, in some of his work it is difficult to distinguish the share of scientific analysis from the share of ideological positioning.

Fama, the other main analyst of the consequences on governance of a dispersed and weak shareholdership (Fama and Jensen, 1983), is also the key theoretician of the Efficient Market Hypothesis. For Hamon (2003, p.88), “Fama’s work covers every type of financial decision and places the market at the centre of the analysis.”

In his remarkable work on the role of political ideology in the rise of the dominant American corporate governance model, Roe (2000) also underlines the importance of the Chicago



school's liberalism. He considers that the view defended by Milton Friedman in his *New York Times* article in 1970, is dominant in business circles today (cf. note 30, p. 554).

From this perspective, the market - the financial market in particular – plays a central role, at the top of the hierarchy of governance mechanisms, because of its supposed effectiveness in solving agency problems (Jensen, 1991). For the sake of economic efficiency, other governance mechanisms, such as legal constraints, should be compatible with the free and unhindered operation of a developed financial market (LLSV). Thus the financial market becomes a governance mechanism *par excellence*. Other mechanisms are demoted in this liberal ideology where maximizing the market value of the shares (shareholder value) is the ultimate goal, regardless of the individual values and aspirations of the persons owning shares at any given time. According to this approach, governance is exclusively focused on protecting the owners' financial interests. The primacy of investor protection - while never questioning their corporate social responsibility – is made explicit in the very definition of corporate governance provided in the summary of the literature considered *the* mainstream reference on the matter: “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer and Vishny, 1997, p. 737).

### 1.3. The dominant approach and its implications for governance practices

This financial approach to governance, focused solely on maximizing shareholder value and using the market as a control mechanism on the condition that it guarantees investor protection, has given rise to a series of practical recommendations concerning complementary governance mechanisms, including legislation, statutory audits, hostile takeovers and the board of directors. These recommendations have received prominent support<sup>3</sup> and have been extensively promoted as codes of ‘good conduct’ since the second half of the 1990s (Wirtz, 2008). Serving the financial markets is the ultimate goal, more or less explicitly prescribed by a number of governance practices promoted by the dominant model. The OECD Corporate Governance Framework stipulates its first principle in the following way: “The corporate

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<sup>3</sup> The World Bank, in particular, designed a benchmarking programme for national governance systems as per the OECD Corporate Governance Framework. We note that several (former) senior directors of the World Bank, such as the economists Lawrence Summers and Simeon Djankow are closely connected, as co-authors and friends, to the promoters of the LLSV *Law and Finance* approach. Andrei Shleifer himself, in his capacity as government advisor, contributed directly to the plan to deregulate the Russian financial market.

governance framework should promote transparent and efficient markets” (OCDE, 2004, p. 17).

Concretely speaking, in the standard approach to governance, some mechanisms have been studied more than others. Such is the case of the board of directors (Fama and Jensen, 1983), the market for corporate control (Jensen 1986, 1991, 1993), the managerial labour market (Fama, 1980), as well as the legal and regulatory environment (LLSV). These mechanisms have been the subject of extensive literature and multiple attempts at regulation (various ‘best practices’ codes for boards of directors, European and national regulation of financial markets and takeovers, legal initiatives aimed at protecting investors). Together they form a kind of governance standard, the role and operation of which have been designed according to a specific form of holding and exercising corporate ownership rights. It concerns passive ownership in a free and unhindered capital market, i.e. the Berle and Means model. Fama and Jensen (1983) are very clear about the importance of the configuration of ownership rights (separation of the functions of risk assumption and decision making) to justify the role of the board of directors as a supervisory body independent of the executives’ interests (high proportion of external directors). Roe (2000) considers that the Berle and Means (1932) ownership model was only able to emerge because the United States’ dominant political ideology was so strongly influenced by liberalism at the time. According to Roe (2000), this ownership model – extremely fragile due to its propensity for creating agency conflicts – survived only because of certain governance mechanisms (e.g. a powerful and well-informed board of directors able to avoid the spoliation of anonymous and dispersed shareholders). Therefore, the standard set of governance mechanisms were derived with reference to the interests of external investors (Shleifer and Vishny, 1997) acting in the financial market. So, for Jensen (2000), the main aim of any firm should be to protect the firm’s long term market value.<sup>4</sup> For Roe (2000), maximizing shareholder value is part of the set of mechanisms that limit an executive’s scope in the standard liberal approach to governance.

For Jensen (2000, p. 16), there is something quasi-religious about this attachment to shareholder value, as can be seen in his use of the word ‘nihilistic’ to describe those who reject this standard.

Therefore, we might consider that, in addition to an independent board of directors and the control exerted by markets, the credo of maximizing shareholder value is part of the set of

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<sup>4</sup> ‘long term market value of the firm’

mechanisms that ‘govern the behaviour’ (Charreaux, 1997) of managers in the standard model. Previous developments make it possible to sketch a schematic model of governance according to the current dominant approach (table 2).

**Table 2** – *The standard disciplinary model of governance for a Berle and Means style firm.*

	<b>Specific mechanisms</b>	<b>Non-specific mechanisms</b>
<b>Intentional mechanisms</b>	<ul style="list-style-type: none"> <li>- <i>Independent and well-informed Board of Directors (supervisory role to reduce agency costs)</i></li> </ul>	<ul style="list-style-type: none"> <li>- Legal and regulatory environment (<i>to ensure investor protection</i>)</li> <li>- Governance frameworks (Cadbury, OECD, Bouton etc.) <i>advising the board on how best to reduce managerial agency costs</i>)</li> </ul>
<b>Spontaneous mechanisms</b>	<ul style="list-style-type: none"> <li>- Reciprocal monitoring among managers <i>to reduce asymmetry of information</i></li> </ul>	<ul style="list-style-type: none"> <li>- goods and services market</li> <li>- financial market</li> <li>- managerial labour market</li> <li>- maximization of shareholder value (<i>the long term market value is presented as the key objective of a firm which, according to Jensen (2000), should make it possible to distinguish good and bad decisions</i>).</li> </ul>

#### 1.4. Review of the values that underpin the dominant approach to governance

We will now compare and contrast the liberal philosophy reflected by the dominant approach to governance with the doctrine that inspired Auchan’s founders to understand the particularities of this alternative system based on the values of the Catholic Church’s social doctrine.

The Catholic Church uses an anthropological argument to oppose liberal individualism<sup>5</sup> and the secularization of society that resulted from the Enlightenment, which the Church holds responsible for social dislocation.

Modern Man is defined by his rights, not as a creation of God as in the old Christian tradition.<sup>6</sup> The consequences of this anthropological rupture are important in determining the way in which society is structured. Traditional Christian philosophy defines Man as a political animal who must deduce from nature God's design for him. In other words, he is given – by God – a choice to seek salvation. For Christians, spiritual life is certainly valued but this question of salvation is also played out in daily life: Man is encouraged to respect the dignity of his fellow Man at all times. For that, social order must be subject to Christian morality and human actions subject to the law. So Man's quest for his purpose must serve the common good. The liberal thought of the Enlightenment opposes the political influence of Christian values on society.<sup>7</sup>

To the modern mind, Man is the sole creator of his own values, and so it is normal to find a variety of opinions in modern society. This primacy of liberty drives political theory to structure society in such a way that political authority serves no single value system, so as to avoid relationships of subordination between individuals. The law by which modern Man has chosen to abide, must be respectful of his rights.<sup>8</sup> The English philosopher John Locke is a key figure in the history of modern thinking. If the law aims to protect the rights of the individual and not to serve selfish interests, the former being the ultimate good (as the classical philosophers were wont to say) then should we start with what is fundamentally animal about Man i.e. his instinct of self preservation, in order to define political order. Locke closely links the legitimacy of private possession to the necessity to eat. To survive, man has a right to own the fruits of his own labour.<sup>9</sup> Modern man is an owner and a worker

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<sup>5</sup> The Church also stigmatizes socialist totalitarianism. We focus only on the study of liberalism in this paper.

<sup>6</sup> Paragraph 1.4 is a free interpretation of the ideas of Pierre Manent developed in *The City of Man*, Paris, Fayard, 1994.

<sup>7</sup> In the introduction to his *An Intellectual History of Liberalism*, (Paris, Calmann-Lévy, 1987), Pierre Manent does not consider the Enlightenment's war against Christianity as the "expression of an immense misunderstanding" rather, he sees the meaning of modernity.

<sup>8</sup> Pierre Manent summarizes the question well: "Opinion without power, power without opinion" in *Les libéraux*, Paris, Hachette-Pluriel, 1986, volume 1, preface, p. 14-15.

<sup>9</sup> Locke proposes that hunger is the primary threat to man, to which Pierre Manent responds: « Si l'homme fondamental, si je puis dire, c'est l'homme qui a faim, cet homme est radicalement séparé de ses semblables : il n'a de relations qu'avec son corps et avec la nature. Si Locke réussit à faire naître les droits de l'individu de la

« propriétaire parce que travailleur, travailleur parce que propriétaire. »<sup>10</sup> Henceforth society becomes economic. Modern liberal philosophy places ownership and the economy at the heart of political and social life.<sup>11</sup>

Modern power, then, has no other aim than to ensure the inviolability of private ownership with a view to guaranteeing the rights of Man and, in particular, his liberty.<sup>12</sup> Where Christian law aims for moral perfection in Man, modern law becomes an instrument designed to protect the rights of the individual, sole creator of his values. The socialization of individuals is no longer based on key ideas; rather it is based on protecting their choice, in other words: their interests. Adam Smith is quite rightly cited as being the herald of the liberal agenda: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”<sup>13</sup> It is a profound evolution in the course of traditional morality. It is tinged with utilitarianism – individual interests prevail – and with materialism. The liberal economic system is moral because it efficiently increases the wealth produced and therefore distributed. The invisible hand of the competitive market turns individual egos into social harmony.

For the Church<sup>14</sup> modern individualistic anthropology can only lead to the exaltation of personal interest which, unless it reflects the common values defined by the Church - the Common Good, in the rhetoric of the Church's Social Doctrine (CSD) –, becomes a selfish interest encouraging rivalry and violence among individuals. When applied to the firm, this theory of social decay as a consequence of self-interested behaviour leads the Church to deplore the recurring tendency of capitalism to seek the highest profit, to favour capital over

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seule faim, du seul rapport de l'individu solitaire à la nature, il aura montré comment les droits peuvent être un attribut de l'individu » (Manent, 1987, *Histoire intellectuelle du libéralisme*, Paris, Calmann-Lévy, p. 95- 96).

<sup>10</sup> Pierre Manent, *Op.Cit*, p. 97.

<sup>11</sup> « Ce que Locke nous a donné à voir, c'est le développement de la société économique complète à partir de ce si chétif commencement : l'individu qui a faim. Toute la vie économique, avec l'échange, la productivité du travail, le droit de propriété, prend en quelque sorte la « naturalité » et le caractère incontestable de droit qu'a l'individu qui a faim de se nourrir. Dans cet individu qui a faim réside la base substantielle, naturelle, primordiale de la vie humaine. On voit pourquoi le programme libéral, une fois qu'il est complètement élaboré, fait du droit de propriété, et tend à faire de l'économie en général le fondement de la vie sociale et politique : si les règles qui organisent la vie sociale doivent naître du droit de l'individu solitaire, elles ne peuvent trouver leur fondement que dans le rapport de cet individu à la nature. », Pierre Manent, *La cité de l'homme.*, p. 102-103.

<sup>12</sup> Which made Louis Dumont say that private ownership in the modern regime is an attribute of the individual. Louis Dumont, *Homo-aequalis I, Genèse et épanouissement de l'idéologie économique*, Paris, Gallimard, 1985. (*Homo-aequalis I, The Genesis and Triumph of Economic Ideology*).

<sup>13</sup> Adam Smith *Enquête sur la nature et les causes de la richesse des nations*, Paris, PUF, 1995, livres I-II, p. 15-16). (*An Enquiry into the Nature and Causes of the Wealth of Nations*)

<sup>14</sup> The following paragraph borrows ideas from our work, Bernard Laurent, *L'enseignement social de l'Eglise et l'économie de marché*, Paris, Parole et Silence, 2007.

work. While the teachings of the Church throughout the 20<sup>th</sup> century have acknowledged that capitalism has evolved past its original form, described by the CSD as “primitive” (John-Paul II, *Le*-7,1 ; 13,5), “savage” (*Ca*-33) and “Manchester Liberalism” (*Qa*-60) to stigmatize its violence, popes after the Council, at a time when societies in developed nations are less inegalitarian, nevertheless warn their contemporaries against greed and seeking profit alone which, in their view, is detrimental to justice. In the wake of the liberal revolution, started in the 1980s in the US with Reagan and in the UK with Thatcher, before spreading around the world, which endorsed the free market and entrepreneurship, with a reduced role for the State, John Paul II expressed his concern, in *Le* and then in *Ca*, about the development of certain capitalist practices which encouraged profit seeking and threatened to bring back the terrible social reality of savage capitalism (*Le*-7,1 and 13,5, *Ca*-8). Pope Benedict XVI echoes this by condemning the domination of shareholders in the management of firms that organise 21st century capitalism to their sole advantage and denounces the shareholder value management model (*Cv*-40). Faced with the reality of companies in which the rights of capital dominate the rights of labour, to varying degrees depending on the aforementioned developments, the Church has always defended a concept of enterprise in which there is a relationship of complementarity between work and capital.<sup>15</sup>

By insisting on this complementarity, the Church attaches the right of ownership – a right it fully recognizes – to a social mortgage.

## **2. The universal destination of goods as an expression of a different approach to ownership and the exercise of related rights:**

The founders of Auchan adhere to this Catholic tradition that is markedly different from the liberal doctrine. In order to understand certain choices this major retail and distribution group has made concerning the shareholding and the organization of governance, we must examine more closely the Catholic Social Doctrine and its tenets on ownership. The Catholic Church’s values are opposed to a purely technical and materialistic approach to ownership rights. In just over a century, the Church has elaborated a large body of doctrines devoted to social and

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<sup>15</sup> §277 of the Compendium.

economic matters, including the encyclical *Caritas in veritate* by Pope Benedict XVI, published in 2009, which is only the latest update of a long series begun in 1891 by Leo XIII.<sup>16</sup>

The Church's Social Doctrine (henceforth 'CSD') adamantly defends ownership rights while pointedly underlining the related responsibilities (namely the social ones), and by grounding its legitimacy in the productive and active role the owner plays in achieving progress in the community. The Catholic approach to private ownership differs from the liberal approach that underpins the standard model of governance in that (1) both the acquisition and use of ownership rights are subjected to a moral code governed by the respect of people and the consideration of the greater good and (2) ownership can only be legitimate if the owner actively contributes to the growth of the common good, which cannot be reduced to economic growth alone. This notion of ownership as responsible and active, serving human interest in all aspects (i.e. not just its economic and financial aspects), affects the way a company perceives the role of its governance system and seeks to structure it. In order to better understand the challenges for Auchan, we aim to methodically retrace the notion of ownership within the CSD.

## 2.1. The CSD in favour of private ownership

Leo XIII and each of his successors have strongly defended the right to ownership in the face of collectivist ideology.<sup>17</sup> However, the Church doesn't make ownership a sacred right as liberal ideology does. The Church attaches the right to ownership to a social mortgage with the principle of the universal destination of goods.

Faced with the ravages of industrial society, the Pope warns Catholics against socialist precepts (*Rn*- 3 and 4). He clearly states that he is in favour of private ownership (*Rn*-5) but that he relegates its use to the principle of the universal destination of goods and draws from the teachings of St. Thomas Aquinas: The foundation of this doctrine lies in the distinction between the rightful possession of wealth and its legitimate use. "Private ownership, as we have seen, is the natural right of man, and to exercise that right, especially as members of society, is not only lawful, but absolutely necessary. 'It is lawful,' says St. Thomas Aquinas, 'for a man to hold private property; and it is also necessary for the carrying on of human

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<sup>16</sup> See appendix 1.

<sup>17</sup> All contributors of the social doctrine are unanimous.

existence' (Thomas Aquinas, Summa Theologica, II-II, Q. 66, a. 2). But if the question be asked: How must one's possessions be used? - the Church replies without hesitation in the words of the same holy doctor: "Man should not consider his material possessions as his own, but as common to all, so as to share them without hesitation when others are in need. Whence the Apostle with, 'Command the rich of this world... to offer with no stint, to apportion largely' (Thomas Aquinas, II-II, Q. 65, a. 2). (*Rn-22*)

Along with the two sides of ownership, the individual and the social, the Church has found a balanced position from which to target the critics of liberalism and socialism accordingly: "Accordingly, twin rocks of shipwreck must be carefully avoided. For, as one is wrecked upon, or comes close to, what is known as individualism by denying or minimizing the social and public character of the right of property, so by rejecting or minimizing the private and individual character of this same right, one inevitably runs into collectivism or at least closely approaches its tenets." (*Qa-46*)

## 2.2. Laying the foundations of ownership: *trompe l'oeil* liberalism

Leo XIII insisted that legitimate ownership is based on labour: "Now, when man thus turns the activity of his mind and the strength of his body toward procuring the fruits of nature, by such act he makes his own that portion of nature's field which he cultivates - that portion on which he leaves, as it were, the impress of his personality; and it cannot but be just that he should possess that portion as his very own, and have a right to hold it without any one being justified in violating that right. (*Rn-9*) As Hugues Puel<sup>18</sup> points out, Lockean principles are evoked here. However, if not to protect the right of ownership, the Pope defends its legitimacy not as a strictly individual right beyond the reach of the law, but as a right attached to a social mortgage, in other words as a right that is regulated and restricted in its use by law.

While Leo XIII underlined the social aspects of ownership and property, Pius XI emphasized the importance of the human use of law in the shaping of private ownership and property, while being wary of collectivization: "Those, therefore, doing a work that is truly salutary and

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<sup>18</sup> Pope Leo XIII's doctrine on property and ownership « se rapproche de celle du philosophe libéral anglais John Locke, qui, le premier déclare la propriété privée comme un droit naturel en la fondant sur le travail, argument dont Léon XIII fait grand usage dans *Rerum novarum* », Hugues Puel, *Les paradoxes de l'économie. L'éthique au défi*, Paris, Bayard-Centurion, 1995, p. 211-212.



worthy of all praise who, while preserving harmony among themselves and the integrity of the traditional teaching of the Church, seek to define the inner nature of these duties and their limits whereby either the right of property itself or its use, that is, the exercise of ownership, is circumscribed by the necessities of social living. On the other hand, those who seek to restrict the individual character of ownership to such a degree that in fact they destroy it are mistaken and in error.” (*Qa*- 48) So private ownership, including that of the means of production,<sup>19</sup> are legitimate, but ownership rights come with a social duty.

Beyond the justification of ownership through hard work, individuals are driven by need; the Church insists on the benefits of fruitful labour: “For the soil which is tilled and cultivated with toil and skill utterly changes its condition; it was wild before, now it is fruitful; was barren, but now brings forth in abundance. (*Rn*-10) As well as the conditions under which freedom is exercised, the Church emphasizes the social benefits of private appropriation that the Church underlines. For Leo XIII as for Pius XI ownership is such an effective gauge of efficiency that endangering it would lead to “upset and disturbance [...] ; the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry.” (*Rn*-15)

The Church’s social teachings have always reflected positively on enterprise for the sake of general prosperity – “Now a State chiefly prospers and thrives through moral rule, [...] respect for religion and justice, the moderation and fair imposing of public taxes, the progress of the arts and of trade” (*Rn* – 32) – Pius XI defends the same virtues, even lucrative ones: “Nor is it to be thought that gainful occupations are thereby belittled or judged less consonant with human dignity; on the contrary, we are taught to recognize in them with reverence the manifest will of the Divine Creator Who placed man upon the earth to work it and use it in a multitude of ways for his needs. Those who are engaged in producing goods, therefore, are not forbidden to increase their fortune in a just and lawful manner; for it is only fair that he who renders service to the community and makes it richer should also, through the increased wealth of the community, be made richer himself according to his position, provided that all these things be sought with due respect for the laws of God and without impairing the rights of others and that they be employed in accordance with faith and right reason. If these principles are observed by everyone, everywhere, and always, not only the production and acquisition of goods but also the use of wealth, which now is seen to be so often contrary to right order, will be brought back soon within the bounds of equity and just distribution. The

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<sup>19</sup> This is specified in *Mater et magistra*, §-19 then in §-113. Former encyclicals approve without ever explicitly mentioning the rights of capital.

sordid love of wealth, which is the shame and great sin of our age, will be opposed in actual fact by the gentle yet effective law of Christian moderation...” (*Qa*-136).

This benevolent attitude towards private enterprise is often ignored, while it is true that the recognition of its positive role is closely monitored. Leo XIII and Pius XI’s successors have maintained this favourable attitude towards private firms so long as they operate with a social objective. Pope John XXIII, the Pope of the Second Vatican Council, summed up the Church’s position while defending the right to take financial initiative (*Mm* 51 and 57) and takes a positive stance towards industrial activity.

### 2.3. Concrete requirements of SDC regarding corporate governance

Property law is therefore recognised, but burdened with a social mortgage. Its use is subordinated to the service of justice and the common good, as if owners were, in a sense, only depositories. We note three obligations that are tirelessly set out in the various social encyclicals as a concrete application of the duties incumbent on owners of the means of production: the just wage, employee participation, and temperance in acquisition and the use of property.

#### *The just wage*

The Church defends a moral approach to wages that reflects the complementary inputs of each factor of production: “It is entirely false to ascribe to the property alone or to the work alone whatever has been obtained through the combined effort of both, and it is wholly unjust for either, denying the efficacy of the other, to arrogate to itself whatever has been produced.” (*Qa*-59)<sup>20</sup> To ensure harmony, Leo XIII reminded each party of its duties, principally those arising from justice (*Rn*-16); foremost of these is the duty for the worker “fully and faithfully to perform the work which has been freely and equitably agreed upon” (*Rn*-16) while refraining from giving in to “men of evil principles” who “work upon them”, only making artful “promises” or even inciting him to defend his own cause with “violence” or engage in “riot and disorder” (*Rn*-16). For their part, employers must not subject workers to “slavery” (*Rn*-16), which leads to the problem of the “just wage” as a duty of justice of the “employer” (*Rn*-17). Pius XI carried on Leo XIII’s idea of the “just wage”, which should allow a family to live satisfactorily, that is to say, to afford accommodation, food, healthcare, and its children’s

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<sup>20</sup> Pius XI carried on with the idea of complementarity expressed before him by Leo XIII: “Just as the symmetry of the human frame is the result of the suitable arrangement of the different parts of the body, so in a State is it ordained by nature that these two classes should dwell in harmony and agreement, so as to maintain the balance of the body politic.” (*Rn*-15)

education.<sup>21</sup> He explicitly opposed the liberal concept that wages are a price freely negotiated on a market, like any other good.<sup>22</sup> The conciliar popes perpetuated for their contemporaries the idea of the just wage, which should be funded by combined social policies.<sup>23</sup>

### *Participation*

The Church defines business as a primarily human, then economic institution. John XXIII centred the Church's teaching on human dignity, which led him to describe business as a "human community" (*Mm*-91).<sup>24</sup> The Vatican Council encyclicals thus set out the theme of human dignity for companies' attention.

This concept of business as a place for the complementary talents of capital and labour led to participation. The idea had already been advanced by Pius XI, who mentioned it relative to management and profit-sharing: "Wage-earners and other employees participate in the ownership or the management or in some way share in the profits" (*Qa*-72). This theme was amplified by the conciliar popes: first John XXIII, who devoted several articles to it in *Mm*, then each of his successors. The "good pope" defined employee participation in ownership of the business as a means to promote greater justice.<sup>25</sup> He referred to Pius XI when stating that

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<sup>21</sup> John XXIII's definition perfectly summarises the position of both popes: "Workers must be paid a wage which allows them to live a truly human life and to fulfil their family obligations in a worthy manner." (*Mm*-71).

<sup>22</sup> Leo XIII set moral law against the freedom to negotiate a paid contract on a free market: "Let the working man and the employer make free agreements, and in particular let them agree freely as to the wages; nevertheless, there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner." (*Rn*-34). John XXIII questioned whether the wage should be set by the marketplace: "We therefore consider it Our duty to reaffirm that the remuneration of work is not something that can be left to the laws of the marketplace; nor should it be a decision left to the will of the more powerful. It must be determined in accordance with justice and equity" (*Mm*-71).

<sup>23</sup> For example: *Mm*-33, *Gs*-67-2, *Le*-19. As the Western countries and Japan developed, social teaching focused more on the reality of the just wage in developing countries (John Paul II in *Ca*-34), even though he stressed that, in the developed countries, regression was still possible (*Ca*-8 et *Ca*-34). Benedict XVI held similar views (*Cv*-63).

<sup>24</sup> John Paul II, who was deeply influenced by personalist ideas, spoke of a "community of persons" (*Ca*-35) or a "society of persons": "For such a task, the Church offers her social teaching as an *indispensable and ideal orientation*, a teaching which, as already mentioned, recognizes the positive value of the market and of enterprise, but which at the same time points out that these need to be oriented towards the common good. This teaching also recognizes the legitimacy of workers' efforts to obtain full respect for their dignity and to gain broader areas of participation in the life of industrial enterprises so that while cooperating with others and under the direction of others, they can in a certain sense 'work for themselves' through the exercise of their intelligence and freedom. The integral development of the human person through work does not impede but rather promotes the greater productivity and efficiency of work itself, even though it may weaken consolidated power structures. A business cannot be considered only as a 'society of capital goods'; it is also a 'society of persons' in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company's activities or take part in such activities through their labour." (*Ca*-43).

<sup>25</sup> "Experience suggests many ways in which the demands of justice can be satisfied. Not to mention other ways, it is especially desirable today that workers gradually come to share in the ownership of their company, by ways and in the manner that seem most suitable. For today, even more than in the time of Our Predecessor [Pius XI], 'every effort must be made that at least in future a just share only of the fruits of production be permitted to

no party could claim all the rewards of production (*Mm-76* quoting from *Qa-59*). However, participation should not be reduced solely to its economic dimension through profit-sharing. It should concern labour itself, thanks to each party's collaboration in the overall operation of the business,<sup>26</sup> in training (*Mm-94*), and in supporting internal promotion (*Mm-93*). John XXIII saw participation as the means to tangibly transform a business into a "human community".<sup>27</sup> The conciliar constitution, for its part, reiterated "promoting the active participation of all in the running of companies", in line with conditions to be determined as best possible (*Gs-68*), while John Paul II restated the Church's proposals to foster "*joint ownership of the means of work*, sharing by the workers in the management and/or profits of businesses, so-called shareholding by labour, etc." (*Le-14* then *Ca-16*).

### *Temperance*

Social doctrine fears that modern society sacrifices people in the headlong search for material and pecuniary benefits alone. The conciliar popes amplified their predecessors' criticisms of modern society, which was dominated by the economy. They updated the condemnation of chrematistics<sup>28</sup> and conspicuous consumption<sup>29</sup> by stigmatising contemporary materialism. The

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accumulate in the hands of the wealthy, and that an ample sufficiency be supplied to the workers'." (*Mm-77* citant *Qa-68*)

He even proposed that employees, in view of the financial techniques of the early '60s, when self-financing was a common practice, should have a personal entitlement to the business: "We must notice in this connection [the prosperity of a people being measured more by the distribution of the goods and wealth created than by their growth – AN] the system of self-financing adopted in many countries by large, or comparatively large firms. Because these companies are financing replacement and plant expansions out of their own profits, they grow at a very rapid rate. In such cases, we believe that the workers should be allocated shares in the firms for which they work, especially when they are paid no more than a minimum wage." (*Mm-75*).

<sup>26</sup> " (...) all parties [owners, managers and workers] [must] cooperate actively and loyally in the common enterprise, not so much for what they can get out of it for themselves, but as discharging a duty and rendering a service to their fellow men. All this implies that the workers have their say in, and make their own contribution to, the efficient running and development of their enterprise." (*Mm-92*)

<sup>27</sup> "We, no less than Our predecessors, are convinced that employees are justified in wishing to participate in the activity of the industrial concern for which they work. It is not, of course, possible to lay down hard and fast rules regarding the manner of such participation, for this must depend on prevailing conditions, which vary from firm to firm (...). But We have no doubt as to the need for giving workers an active part in the business of the company for which they work – be it a private or a public one. Every effort must be made to ensure that the enterprise is indeed a true human community, concerned about the needs, the activities and the standing of each of its members." (*Mm-91*).

<sup>28</sup> Pius XI is clear on this subject: "The root and font of this defection in economic and social life from the Christian law, and of the consequent apostasy of great numbers of workers from the Catholic faith, are the disordered passions of the soul, the sad result of original sin which has so destroyed the wonderful harmony of man's faculties that, easily led astray by his evil desires, he is strongly incited to prefer the passing goods of this world to the lasting goods of Heaven. Hence arises that unquenchable thirst for riches and temporal goods, which has at all times impelled men to break God's laws and trample upon the rights of their neighbours, but which, on account of the present system of economic life, is laying far more numerous snares for human frailty. Since the instability of economic life, and especially of its structure, exacts of those engaged in it most intense and unceasing effort, some have become so hardened to the stings of conscience as to hold that they are allowed, in any manner whatsoever, to increase their profits and use means, fair or foul, to protect their hard-won wealth

conciliar constitution draws a distinction between “having” and “being”, by pointing out that “man is worth more for what he is than for what he has” (*Gs*-35). Paul VI, John Paul II and Benedict XVI expressed the same concern.<sup>30</sup>

The Church shows itself to be prescriptive, calling on men and women to display a temperate attitude to acquisition (profit is not the only purpose of business, and speculation is not virtuous) and the use of property.<sup>31</sup> A sense of moderation in consumption, instead of ostentation, thus makes it possible to serve justice and exercise solidarity towards the most deprived,<sup>32</sup> a theme that Benedict XVI has defended vigorously by calling for new lifestyles “in which the search for truth, beauty, goodness (...) are the factors which determine consumer choices, savings and investment”<sup>33</sup>.

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against sudden changes of fortune. The easy gains that a market unrestricted by any law opens to everybody attract large numbers to buying and selling goods, and they, their one aim being to make quick profits with the least expenditure of work, raise or lower prices by their uncontrolled business dealings so rapidly according to their own caprice and greed that they nullify the wisest forecasts of producers.” (*Qa*-143).

<sup>29</sup> “For since the seeds of a new form of economy were bursting forth just when the principles of rationalism had been implanted and rooted in many minds, there quickly developed a body of economic teaching far removed from the true moral law, and, as a result, completely free rein was given to human passions. Thus it came to pass that many, much more than ever before, were solely concerned with increasing their wealth by any means whatsoever, and that in seeking their own selfish interests before everything else they had no conscience about committing even the gravest of crimes against others. Those first entering upon this broad way that leads to destruction easily found numerous imitators of their iniquity by the example of their manifest success, by their insolent display of wealth, by their ridiculing the conscience of others, who, as they said, were troubled by silly scruples, or lastly by crushing more conscientious competitors.” (*Qa*-145).

<sup>30</sup> Paul VI (*Oa*-9); John Paul II (*Srs*-28); Benedict XVI (*Cv*-11).

<sup>31</sup> Concerning “those whom fortune favors”, “a most strict account must be given to the Supreme Judge for all we possess” (*Rn*-18), hence the encouragement to adopt ascetic behaviour: “Christian morality, when adequately and completely practiced, leads of itself to temporal prosperity (...); it powerfully restrains the greed of possession and the thirst for pleasure [a reference to Timothy 6:10: “For the love of money is the root of all evil”] – twin plagues, which too often make a man who is void of self-restraint miserable in the midst of abundance; it makes men supply for the lack of means through economy, teaching them to be content with frugal living, and further, keeping them out of the reach of those vices which devour not small incomes merely, but large fortunes, and dissipate many a goodly inheritance.” (*Rn*-23).

<sup>32</sup> “Furthermore, a person’s superfluous income, that is, income which he does not need to sustain life fittingly and with dignity, is not left wholly to his own free determination. (...) the rich are bound by a very grave precept to practice almsgiving, beneficence, and munificence.” (*Qa*-55) and “Those who are engaged in producing goods, therefore, are not forbidden to increase their fortune in a just and lawful manner; for it is only fair that he who renders service to the community and makes it richer should also, through the increased wealth of the community, be made richer himself according to his position, provided that all these things be sought with due respect for the laws of God and without impairing the rights of others and that they be employed in accordance with faith and right reason. If these principles are observed by everyone, everywhere, and always, not only the production and acquisition of goods but also the use of wealth, which now is seen to be so often contrary to right order, will be brought back soon within the bounds of equity and just distribution.” (*Qa*-147).

<sup>33</sup> *Cv*-51 quoting *Ca*-36.

### **3. The case of Auchan: Catholic thought, family governance and employee participation**

We will now explore further the concrete link between the Catholic value base, the ownership structure and the governance system in the case under study. Auchan is one of France's largest companies, but deliberately stays out of the stock market; a very high proportion of its capital is held by the family of the founder, Gérard Mulliez. Despite its great size, the group differs radically from the managerial company described by Berle and Means, for which the standard governance model was devised; this aimed primarily to guarantee the financial interests of stock-market investors. The purpose of this section is to show that the high concentration of ownership within the family, and the company's unlisted status, stem from the founder-chief's deliberate decision, and that this decision is based on his value system, which is strongly influenced by the Church's social doctrine, which promotes ownership for all (employees included) but also the subordination of ownership to one's social role and responsibility.

To this end, we conducted a semi-directive, centred interview lasting about three hours with Gérard Mulliez, which was recorded and transcribed. The idea was to identify, in his discourse, the presence and importance of the values of the social doctrine of the Church, as well as the consequences of these values in how the company's oversight system was structured. Our research protocol was therefore designed to supply a concrete illustration<sup>34</sup> of the central premise of Hambrick and Mason's Upper Echelons Theory (1984), which states that a company's strategic decisions (including those regarding its main governance mechanisms) reflect its executives' values and cognitive structures. In the case of Auchan, we consequently intend to first set out the values of its upper echelons (3.1) so as to then show how they are reflected in the other governance mechanisms (3.2). To do this, we analysed the content of the transcription according to a typological grid of the governance mechanisms proposed by Charreaux (1997), cited *supra* (table 1). We attempted to define each section of text that referred to a governance mechanism, according to its more or less specific nature, on the one hand; and to its intentional or spontaneous nature, on the other hand. These findings are summarised in table 3, which characterises the specific features of Auchan's governance.

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<sup>34</sup> In epistemological terms, the status and utility of studying an original case as an *illustration* of a piece of conceptual work are discussed by Siggelkov (2007).

### 3.1. The roots of Gérard Mulliez's thought in the SDC value system

The governance system, as it appears today, results from a long development strongly influenced by the Catholic roots and the personal experiences of the family's members, in their interactions both with each other and with their socio-economic environment. Gérard Mulliez highlights this Catholic culture<sup>35</sup> as an important legacy, which reaches into his business practice: "I feel that we're steeped in a Catholic culture, whether we like it or not." (Interview with GM, 16/10/08, pages 68-69). His forebears – direct relatives, uncles and aunts – are not satisfied with simply professing their faith. For them, it must permeate their managerial practices. Gérard Mulliez stresses the role of priests and of Catholic action movements that work with business managers – the CFPC (Centre Français du Patronat Chrétien, "French Centre for Christian Employers"), which became the EDC (Entrepreneurs et Dirigeants Chrétiens, "Christian Entrepreneurs and Managers") and MCC (Mouvement Chrétien des Cadres et Dirigeants, "Movement of Christian Managers and Corporate Officers"): "we studied the encyclicals when we were young, but very intensely". (GM interview, 16/10/08, pg. 68-69).

A brief reminder of the ideological and historical context is required to understand the importance of this commitment by the family's members. Gérard Mulliez is heir to a business tradition dating back to the late 19th century, which developed in the 20th century until he reoriented it into the mass-retail sector. The family had been deeply affected by industrial and ideological conflicts, especially in an industrial region of France with powerful Communist and Socialist forces. Although the social situation of the working class had improved throughout the post-Second World War growth era, ideological rifts remained, and in France in particular, where the Socialist and Communist parties were still advocating a breakaway from capitalism; and, in the case of large companies, opposed the private appropriation of the means of production. In a context of Cold War ideological confrontation being played out across a sensitive industrial region – which today's young generation have never known – debate about the legitimacy of ownership took on a special importance.

Faced with the Socialists' and Communists' threatening stance on the legitimacy of private appropriation of the means of production, the Church, in its teachings, forcefully asserted the right to property in the name of efficiency; but in no way made it an intangible principle.

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<sup>35</sup> Geert Demuijnck stresses its importance within Auchan in his article *From an Implicit Christian Corporate Culture to a Structured Conception of Corporate Ethical Responsibility in a Retail Company: A Case-Study in Hermeneutic Ethics*, in *Journal of Business Ethics*, 2009, 84: 387-404, pg. 391.

This conception of property defended in the SDC is central, and is widely reflected in the discourse of Auchan's founder. In particular, it contains the idea of the universal destination of goods: property is legitimate only on condition that it is used in an active, fruitful and generous way. In other words, the shareholder is only its depository – “I think the companies don't belong to us. They used to belong to those who looked after them, and today they still belong to those who look after them. And if they don't look after them well, there'll be nothing left. If they do look after them well, then there will be something left. But we're not really the owners, we know that.” (GM, pg. 71) – and its positive effects must benefit the greatest number. He justifies employees sharing in the company's profits as a concrete application of the SDC: “And so, in the encyclicals, when we were told that ‘private property should be spread wider’ and that's what had to be done, my uncles didn't want me to introduce employee share ownership, so I reminded them of the encyclical. I said ‘Listen, it's pointless telling me the encyclicals must be applied, and then refusing when I actually ask you to do it’” (GM interview, 16/10/08, pg. 68-69). In fact, Auchan would introduce a bold policy (see below): the family's authorisation went beyond its reservations, which Gérard Mulliez understood and attributed to the class-struggle context specific to France: “I understood my uncles' reaction. They had had the Great War and World War II, the strikes in '36, and the strikes in '45 or '46. When you've nearly gone bankrupt several times, and you're facing tough-nut unionists who never listen, like the CGT at a given time. [...] the relatives didn't want to find themselves around the board of directors' table with people who were impossible to manage. So I understood why they were afraid. They were afraid and they said: ‘OK, you can do it, but on condition that ... before becoming shareholders, every person should attend a course on business economics.’ And with the Catholic University's help, we set up a business economics course, which to begin with was actually eighteen hours long.” (GM, pg. 69).

The comments of Gérard Mulliez very closely echo the conception of social doctrine in which private appropriation is recognised providing that the owner accepts his duties, in other words he deems legitimate the social mortgage incumbent on him: “God intended the earth and all its contents for the use of all men and all peoples, so that the benefits of the creation should flow fairly into the hand of all, in accordance with the rule of justice, which is inseparable from charity. (...). That is why man, in the way he uses it, must never consider his legitimate possessions as belonging solely to him, but must view them as common, in the sense that they may be profitable not only to him but also to the others” (Gs-69.1).



### 3.2. Impact of corporate-governance mechanisms

In the previous section, we observed that Auchan's founder subscribed to an approach to property that was deeply rooted in the Church's social doctrine. In addition we observed that this value system directly influenced a significant decision regarding the capital structure, involving employees in ownership, but also to the responsibilities arising therefrom, for the company's sound management and its development. Other distinctive features characterise Auchan's governance: these are summarised in table 3, based on the general typology of governance mechanisms proposed by Charreaux (1997). Each listed mechanism will then be illustrated by Gérard Mulliez quotations, with a brief commentary.

**Table 3** – *Specificities of the Auchan Group's governance system*

	<b>Specific mechanisms</b>	<b>Non-specific mechanisms</b>
<b>Intentional mechanisms</b>	<ul style="list-style-type: none"> <li>- Wills</li> <li>- Internal rules of the Mulliez family's association (AFM)</li> <li>- employee share ownership and participation in company's management: <i>Valauchan</i></li> <li>- supervisory board: <i>family, Valauchan representative; coaching</i></li> <li>- remuneration systems: <i>search for moderation</i></li> </ul>	<ul style="list-style-type: none"> <li>- Social doctrine of the Church (social encyclicals, etc.)</li> <li>- Christian networks (CFPC, MCC): <i>"discussions with a certain ethical perspective"</i></li> </ul>
<b>Spontaneous mechanisms</b>	<ul style="list-style-type: none"> <li>- internal family share market: <i>once a year; shareholder-base stability</i></li> <li>- internal capital market: <i>self-financing, solidarity, long-term perspective (commitment)</i></li> <li>- family culture: <i>Catholicism, solidarity, unity, entrepreneurship</i></li> </ul>	<ul style="list-style-type: none"> <li>- business culture: <i>paternalist, social-Catholic tradition of Northern France</i></li> <li>- market of goods and services: <i>discount price and product availability</i></li> </ul>

### 3.2.1. Intentional and non-specific mechanisms: SDC “codes” and official relays

#### *Social encyclicals*

Regarding intentional and non-specific mechanisms that influence the behaviour of Auchan’s top managers, we should mention the social encyclicals, which are subject to serious analysis at family meetings: “The family’s thinking, underpinned by reading and analysing the papal encyclicals and their comments on labour, property and business, gradually make it possible to formalise the company’s core values and its ethics. Self-respect, respect for others and for work, trust, a spirit of service, empowerment, transparency, and a concern for thrift and proper management of assets, make this model strangely similar to that of Rhineland capitalism”<sup>36</sup> (Réale and Dufour, 2005, pg. 259-260). The explicit reference to the Church’s teaching during the period when the governance system was designed is confirmed by Gérard Mulliez: “we studied the encyclicals when we were young, but very intensely” (GM interview, 16/10/08, pg. 68-69). This shows that the social encyclicals, which contain a number of principles and recommendations for companies, some of which directly involve governance issues, played a role in framing the behaviour of Auchan’s upper echelons, at least during the key period when the group’s identity was forged, a role comparable to that of the codes of conduct or codes of governance in some of today’s big listed corporations.

#### *Christian networks*

Gérard Mulliez also frequented Christian employer networks, which enabled him to have “discussions with a certain ethical perspective”:

“At my CFPC or MCC meeting, we talk about each other’s problems, we discuss things. Our discussions are based on documents, and then we try to say ‘We agree, we don’t agree’, ‘They don’t have their feet on their ground, it’s completely daft’. Or, on the contrary, ‘Yes, maybe we could apply this’. Let’s say that, at all times, we hold discussions with a certain ethical perspective.” (GM, pg. 11)

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<sup>36</sup> Gomez and Wirtz (2008) highlight the very strong influence of the Catholic Church and its social doctrine on West Germany’s recovering capitalism after the war. See also Langner (1980). It is noteworthy that the main author of Pope Pius XI’s *Quadragesimo anno* encyclical was the German Jesuit Oswald von Nell-Breuning, who also played a significant role in the fledgling Federal Republic of Germany.

The CFPC is the Centre Français du Patronat Chrétien (“French Centre for Christian Employers”). Founded in 1948, it changed names in 2000 and became Entrepreneurs et Dirigeants Chrétiens (“Christian Entrepreneurs and Top Managers”) (EDC). According to its official website, the movement strove from the outset “in favour of thought and action that were more oriented towards implementation of the Church’s teaching”. The MCC is the Mouvement Chrétien des Cadres et dirigeants (“Movement of Christian Executives and Top Managers”), affiliated to the French Catholic Church. Its charter states: “The Movement’s mission is to help its members act more in keeping with the Spirit of Christ in all places where they exercise their responsibilities, and everywhere where they prepare and take their decisions. It pays special attention to situations and responsibilities relating to working life, in particular those of the executives and top managers of the business world, as well as to the French, European and global environments in which they operate”. These Christian networks are very structured, and may therefore be viewed as intentional platforms for conveying Catholic thought to the top-management community. As a governance mechanism, they can therefore be deemed intentional and non-specific.

### 3.2.2. Spontaneous and non-specific mechanisms: regional culture and business imperatives

#### *Regional business culture*

The regional business culture is one of the spontaneous, non-specific governance mechanisms. It has had a substantial impact on the mindsets of the Mulliez family members and of the top managers from the family: “The regional context was important. By which I mean that, in the regional context for example, all the boys were entitled to join the company. That’s how it was, the grandfather would say: ‘All my children are equal and they are all entitled to join’. They weren’t asked if they were happy to join, they were told: ‘You have to join’. And they were also told: ‘Your wage will depend on how many children you have, because it depends on how much money you need to live on. Your house was paid for, your house was built for you, but it also depended on the number of children you had’. And so everything was organised in a patriarchal way, depending on how many children you had.” (GM, pg. 8)

#### *Market of goods and services*

The market of goods and services is certainly a governance mechanism (Fama, 1980; Charreaux, 1997), insofar as it imposes limits on top managers' strategic action. It is clearly recognised as such, and governs strategic conduct at Auchan:

“The customer is king. If the customer isn't satisfied, the company ceases to exist. So the first thing that must be done in a company ... because a good company ... my first reply is: ‘A good company is a company that exists’. And a company can only continue to exist if it makes money.” (GM, pg. 11).

This mechanism clearly applies to any company (it is non-specific), whatever its value system. In Gérard Mulliez's conception, it represents the company's “physical foot” next to its “spiritual foot”. In his view, the company needs both to move forward and develop. Indeed, this reflects the idea that governance mechanisms are perceived not just as constraints but also as development levers.

### 3.2.3. Spontaneous and specific mechanisms: family solidarity and internal capital market

#### *Family culture*

Originally, the Mulliez family culture was strongly steeped in Catholicism, and this culture does not stop at the company's door. However, Gérard Mulliez implicitly recognises that a certain detachment from this culture has developed over time:

“My father and his brother Louis were part of the Catholic action network with priests, Jesuits and others who were quite remarkable. Father Ranson also made a big impression on them. And so they really worked hard. It was better than today's CFPC. Spirituality... The chaplain went into the details of how companies were organised.” (GM, pg. 11).

Beside the strong involvement of Gérard Mulliez and his parents in Catholic circles, a major trait of the family culture is its sense of responsibility vis-à-vis committed people. This sense of responsibility was passed on by the parents, who felt it required a real closeness to the companies, ownership of which should mean more than a mere financial interest: “So our parents wanted us to stay close to the companies, they wanted us to stay close to the companies and for the private ownership of the means of production to be something that is not... it's not about money, it's a question of responsibility. We are responsible. When we open a factory, we are responsible for the people we recruit, we are responsible for helping them grow, we are responsible... If we want to change things, we need to be responsible, not shareholders.” (GM, pg. 7)

This sense of responsibility is coupled with a very strong solidarity between the family's members, giving rise to the maxim of "*tous dans tout*" ("everyone in everything"):

"The internal rules begin, 'We stay together because it is better to do business all together than separately. It is more efficient and more intelligent to do business all together than separately'. So that's the fundamental reason why they've stayed together." (GM, pg. 6)

#### *Family capital market and internal funding: the rejection of stock-market logic*

The family culture of responsibility and solidarity has an offshoot in one of the most distinctive features of Auchan's governance model, namely the organisation of its internal family capital market, where transactions are conducted once a year only by the 500 or so family shareholders, according to a strictly controlled process. Becoming a shareholder pre-supposes obtaining approval from the AFM (the family association) and signing up to the AFM charter. As for the company's development finance, building up cash reserves has always been preferred to external fundraising. The family capital market and internal development funding are based explicitly on the rejection of the stock-market logic of resource allocation, in order to favour relationship-based mechanisms based on a good understanding of business and on the people subscribing to the values that shape the distinctive features of the governance system.

#### *Internal family share market*

Gérard Mulliez explicitly compares the stock market and the family share market as alternative governance mechanisms: "at a given moment, Marcel Fournier [the founding family of retail group Carrefour], said to himself: 'I'd like to give my brothers and sisters a bit of money, so I'll list the company on the stock market'. And he did. Now look what's left. Furthermore, children have worse manners when you're listed. We are only allowed to sell once a year. When you're only entitled to sell once a year, you spend a year thinking about it. Then when you've sold, you can't buy for a year, so if you've sold too many, your money isn't well invested between the two points, and you've lost something. So reflecting every year, and then a year later, rather than every week, makes a company's true value easier to calculate." (GM, pg. 62) Gérard Mulliez thus rejects the stock market as a governance mechanism, so as to guarantee the interests of his own company's shareholders. His stance reflects the conviction that there is a risk of a certain loss of responsibility among the shareholders (here, "ill mannered" reflects a loss of values) through an emphasis solely on financial interests, which can easily be sold on the stock market. Such a stance implicitly

reflects the conviction, borrowed from Catholic thought, that property – besides its financial entitlements, which can be immediately converted into cash if necessary – also carries a heavy responsibility, which demands that any decision about a possible divestment be taken with discernment and after a minimum of reflection. Auchan's founder thus contrasts the virtues of organising an internal capital market like the Mulliez family's, and its long-term view, with the stock market, which is perceived as causing the bond of personal responsibility between shareholder and company to break. He is convinced that, over the long term, such an approach is in no way at odds with the interests of the family shareholders:

“I think that the family's shareholders are far wealthier today, generally speaking, than the shareholders of the Halley family, than the shareholders of the Carrefour family, than the shareholders of the Castorama family, etc., which are listed companies. So I think the shareholders have now understood that it was a considerable growth and efficiency driver, and a considerable justice driver. [...] The top managers think: '[...], it's my dough and my mates' dough, so let's be careful with it'. They're not like some finance directors who say: 'I'm going to boost the share price and cash in, then I'll go somewhere else where I'll keep my shares, and then I'll engineer a drop in the share price, then I'll buy, etc.'. There are finance directors who have made a fortune simply by gambling with no regard for their company's interests. So I think it's a good system. It's a much better system than the stock market, and in any case, the stock market doesn't let you link the staff to the year's results and share price.” (GM, pg. 63) Here too, the idea of the owner being responsible for the entire company is strongly present.

### *Internal capital market*

To fund the development of its business activities, the Mulliez family favours self-financing and adopts a long-term vision: “It's fundamentally important to leave the money in the company. If the Mulliez family withdrew lots of money every year, it would stop the company growing at a good rate, and [would compromise] the company's future value.” (GM, pg. 63)

Indeed, revenues from mature activities allow the start-up of new businesses, unsubjected to the short-termist pressures of the financial markets. Besides the solidarity between the family's members, the workings of this internal capital market reflect a strong attachment to long-term development, sometimes to the detriment of short-term financial profitability. The clearly-stated end goal of financial decisions is therefore not short-term profit but long-term development:

“The Mulliez family’s smart idea is that, as we’re all shareholders in all the businesses in the same proportions [...] as we are all shareholders in the same proportions, when we trial a new business somewhere, even if it takes seven to ten years to get it going... we bear the start-up losses, we put up with the time it takes to train people, we put up with the time it takes to adapt to a new reality we didn’t know about, etc. [N.B. there is an implicit notion here of “sustainable” finance, which allows support for a learning process necessary for development] When you’re by yourself [...], decisions about whether to keep going in periods of crisis or difficulty [...] are harder to take. [...] So there are survival opportunities that arise when you’re by yourself, but in a bigger group, you take as long as you need” (GM, pg. 40).

By contrast, Gérard Mulliez is highly distrustful of the financial markets: “When I discovered the trading rooms, at first I didn’t know what they were doing, these guys who all come from the top graduate schools, sitting behind computers, playing with something that doesn’t exist. I was astounded.” (GM, pg. 60) And then: “I hope that, after having sorted out the dot-com bubble crisis, after the crisis here,<sup>37</sup> I hope people will stop playing with things that don’t exist. And so they’ll use the money to create proper added value. Because that isn’t adding value, it’s just paper.” (GM, pg. 61) “Real value”, from productive investment in companies one knows about and in which one is personally involved, is thus contrasted with the “idols” of market finance, which creates a virtual reality.

#### 3.2.4. Intentional and specific mechanisms: formalisation of the conception of ownership and shareholder relations

A governance system is a whole; its components interact and mesh in a complementary way. Intentional, specific mechanisms therefore give a more formal character to top managers’ values.

##### *Wills*

One of the primary intentional mechanisms specific to the Mulliez family’s companies are the wills, which formalise the conception of ownership handed down by the family culture:

“In his will, made long before he died, my father gave us ownership of the shares. I have transferred mine to my children in 1975, and my parents had done the same for me in 1939-1940. In his will, and in the documents accompanying the gifts by will that were made

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<sup>37</sup> The interview took place on 16 October 2008.

officially, my father wrote: ‘You are forbidden from selling the shares in the companies, except to create a job for one of you or one of your brothers, and providing it is with the consent of at least two of your brothers, in order to prevent dispersion, bouts of over-enthusiasm, etc.’. [...] And I believe that this is important because it proves, if you will, that we are not owners, we are managers of a good in this world. We will be judged accordingly when we reach the other side, and it doesn’t belong to us. This means that selling shares to pay for girls is [dumb], it makes no sense. Selling shares to buy a boat is questionable. Selling shares to play the stock market, I did it once and I lost. [...] every time I’ve overstepped the mark, my father up in heaven, and even when he was there, ... I’ve lost. And so I was cured, because when you don’t take care of business, it doesn’t run properly. » (GM, pg. 29) The spirit of the will, as perceived by Gérard Mulliez, clearly reflects the idea of the universal destination of goods.

#### *The family association and its internal rules*

The family shareholders’ relations are also formalised to a degree within the Mulliez family association (AFM), although from a legal perspective this body does not really exist (it is not a non-profit association under the French law of 1901). However, it has a code of conduct, first written in the generation of the Auchan founder’s parents: “These internal rules stem from what our parents were, what my grandfather was, what my parents were, from my father and his brothers, and what we are. The rules have evolved over time, because when there were ten partners it wasn’t the same as when there were thirty, which wasn’t the same as the five hundred there are now. When there were two companies, it wasn’t the same as the large number we have now.” (GM, pg. 6).

These rules derive from a joint agreement between the association’s members, and are informed by the strong Catholic culture of the first drafters:

“They made the rules together, so they convinced one another round a table. I attended the introduction of the first set of rules. We met from eight o’ clock to noon every Saturday morning, and we read them line by line. My father often invented the lines, and my father’s youngest brother, Francis Mulliez, did the final draft. He would read out a sentence, and say: ‘Do you all agree?’. They said ‘yes’ or ‘no, couldn’t we change this or that?’. And so we gradually absorbed them. Also, my father and his brother Louis were part of the Catholic action network with priests, Jesuits and others who were quite remarkable. Father Ranson also made a big impression on them. And so they really worked hard. (...) Spirituality... The



chaplain went into the details of how companies were organised. So they worked on that and then they applied it.” (GM, pg. 11).

### *Employee share ownership*

Besides the sense of responsibility attached to ownership by family shareholders, the Church’s social doctrine defends the possibility of access to ownership for the greatest number. We have already mentioned that this element of the SDC was a decisive factor in the introduction by Auchan of employee share ownership. Here, we will simply state that when the scheme was put in place, Auchan had a big lead in this area, and even today, an employee-owned equity stake of about 13% is highly unusual for a group of this size.

Asked about the reasons for employee share ownership, Gérard Mulliez replies: “Well, it’s both fair and effective”. (GM, pg. 61)

### *Supervisory board*

Owing to their equity stakes, which are managed by a body called Valauchan, the employees have a representative on the supervisory board. He is the president of Valauchan International. Otherwise, the supervisory board has an empirical structure; the spirit is not one of suspicion of potentially dishonest behaviour that requires monitoring (as the mainstream approach to governance would have it). On the contrary: the idea is to provide assistance, so as to make sure projects are viable:

“In our group, the principle is that each management team must have a so-called supervisory team opposite. It would have been better to talk about assistance, but in the end we used the term supervisory [...] The idea being that the supervisory team plus the operational team do better together than if it didn’t exist. And that one team’s human resource professional can give their HR tips to their counterpart. [...] The boss is always a guy who’s a boss because he has some distinctive quality. Generally, he’s unbeatable in his area, but has lots of gaps everywhere else. So we have to help him to surround himself with experts from the other areas – that’s important, it’s one of the board’s roles. And it’s one of the board’s roles to train the people around the management team in the specific areas. So it’s a system which means that every month people have to meet, and every month each of the company’s major functions is reviewed.” (GM, pg. 64-65)

And then:

“So, it’s important to have these advisers and this wealth of expertise which was put in place to supervise us. That’s how it started. One of my uncles used to come and bother me every

month, and when I explained things to him, he wouldn't believe me. So I said to him: 'Right, you won't believe me, let's call in Roger Brouwers', who was the finance director, Marc Deleplanque, the development director, Philippe Duprez, the human resources director. [...] so the poor bloke found himself up against four guys who had a certain amount of power. They weren't fools. And then he said: 'I can't keep coming on my own like this, no way, I'm going to be tricked'. So he brought along other people, other business chiefs, other family cousins, so that it would be four against four. And that's become the rule we've applied in the big companies and the little ones too." (GM, pg. 65) The board directors are not therefore recruited for their independence, but for skills that help develop the group on healthy foundations.

### *Remuneration systems*

The remuneration policy for top managers belonging to the family was at first heavily determined by the needs of family life:

"They used to be told: "Your wage will depend on how many children you have, because it depends on how much money you need to live on." (GM, pg. 8)

This corresponds to the notion of the "just wage" defended in the SDC, as defined with reference to the family's needs to ensure a decent existence. Otherwise, Gérard Mulliez considers that basic salary must reflect a certain moderation:

"The top managers must have reasonable basic salaries, [...] the rest of their remuneration must be a profit-sharing system. I always say that basic salary is taken from the checkout girl's pay. The profit share is taken from the organisation's intelligence and a little bit from the shareholders. That doesn't really matter. And having top managers who are overpaid even if they're losing money is out of order. These are rules, and they must be applied." (GM, pg. 58)

### **Conclusion**

Our analyses reveal deep traces of the Church's social doctrine in the comments of Gérard Mulliez, founder of Auchan, one of France's biggest retail groups. This doctrine's value system is invoked to justify governance choices that in some cases differ significantly from the currently dominant model of corporate governance, which was devised solely to protect the financial interests of a dispersed, anonymous shareholder base that operates in the stock market. The group's upper echelons – who embrace a conception of ownership coupled with

social duties as well as rights, with regard to a company that is conceived as a human community – have to date deliberately opted to stay out of the financial markets, in order to keep the equity base heavily concentrated within the founding family, supplemented by a significant employee-owned shareholding. It is therefore not by default that Auchan's governance system deviates from the benchmark financial model, owing to the supposed inability of French law to effectively protect financial investors (LLSV, 1998), but by choice; and the group's founder stands firmly by this choice, on the basis of the Catholic Church's social teaching.

It is noteworthy, however, that our findings do not make it possible to state that Auchan fully reflects all SDC principles in its applied practices; or that the group may be viewed as the archetype of a business governed in accordance with the precepts of the Church. This paper has a far more modest purpose: to show that, in spite of occasionally strong contingencies, such as high institutional pressure based on a standard economic discourse that seems to impose itself isomorphically, differences still exist between company governance schemes within the same economic region and are self-sustainable for long periods, as illustrated by the Auchan group's lifespan. This observation demolishes the theory that governance systems<sup>38</sup> are inevitably converging into a single financial model, and rebuts the idea of pure institutional determinism. A non-mainstream model can be chosen freely, because this choice is based on an alternative value system endorsed by the main top managers. In the specific case of Auchan, this value system refers to the SDC, whose specific conception of private property guided the unrestricted search for concrete solutions for various aspects of governance.

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<sup>38</sup> For a recent critique of convergence theory, see Charreaux (2009).

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## Appendix – What is the Church’s social doctrine?<sup>39</sup>

*In 1891, in his encyclical “Rerum novarum” – “Des conditions nouvelles sur la situation des ouvriers”*

*- Pope Leo XIII expressed his concern about the effects of capitalism and liberal economics on the structures of society: growing urbanisation fed by the rural exodus; loss of the traditional solidarities, typically organised under the aegis of parishes; pauperisation and receding Christian faith among the working class; dissemination of socialist ideas. This document began a series of texts on economic and social matters, called the Social Doctrine (or Teaching) of the Church.<sup>40</sup>*

*However, the Social Doctrine of the Church (SDC) is not a political programme. It seeks to set out major moral principles, based on a Christian conception of humanity and a vision of society that is subordinated to the idea of justice, in order that Christians may address with discernment and commitment the dilemmas posed by business and social life. The discourse draws on permanent elements – the central concept of personal dignity<sup>41</sup> and the revelation of natural law<sup>42</sup> – which ensure the unity of documents that are regularly updated to take account of new problems.*

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<sup>39</sup> The text in the appendix borrows from the entry on the Social Doctrine of the Church in *Dictionnaire du Catholicisme*, due to be published in early 2012, Paris, Robert Laffont, Collection Bouquins.

<sup>40</sup> These texts (encyclicals for the most part) are typically published on the occasion of 10-year anniversaries of *Rn*. Thus: *Quadragesimo anno* (on reconstruction of the social order), Pius XI, 1931; the message broadcast at Whitsun 1941 by Pius XII; *Mater et Magistra* (on the contemporary development of social life in the light of Christian principles), John XXIII, 1961; the apostolic letter *Octogesima adveniens* (in response to the new needs of a changing world), Paul VI, 1971; *Laborem exercens* (on human work), John Paul II, 1981; *Centesimus annus*, John Paul II, 1991. Other documents make a major contribution to social thinking: the encyclical *Pacem in terris* (on establishing universal peace in truth, justice, charity, and liberty), John XXIII, 1963; the conciliar constitution *Gaudium et Spes* (on the Church in the modern world), 1965; the encyclical *Populorum progressio* (on the development of peoples), Paul VI, 1967; and the encyclical *Sollicitudo rei socialis*, John Paul II, 1987, for the 20th anniversary of *Populorum progressio*. The Synod of Bishops published an important document in 1971, *Iustitia in Mundo*, while the Pontifical Council for Justice and Peace, at John Paul II’s request, gave a thematic presentation in 2005 of the fundamental points of social teaching in a *Compendium of the Social Doctrine of the Church*. The popes repeated the ideas set out in the encyclicals in countless speeches, messages and addresses. The Roman magisterium is supplemented by initiatives, at local-Church and bishop level, on the occasion of pastoral letters devoted to economic and social issues, such as that by the American bishops (*Economic Justice for All, on Catholic Social Teaching and the U.S. Economy*, 1986).

<sup>41</sup> “Men and women, in the concrete circumstances of history, represent the heart and soul of Catholic social thought. The whole of the Church’s social doctrine, in fact, develops from the principle that affirms the inviolable dignity of the human person” (*Compendium*, § 107).

<sup>42</sup> “[The SDC] shows above all the *continuity* of a teaching that refers to the universal values drawn from Revelation and human nature. For this reason the Church’s social doctrine does not depend on the different cultures, ideologies or opinions; it is a *constant* teaching that ‘remains identical in its fundamental inspiration, in its “principles of reflection”, in its “criteria of judgment”, in its basic “directives for action”, and above all in its vital link with the Gospel of the Lord’. This is the foundational and permanent nucleus of the Church’s social

*This message from the Church, addressed to the temporal world, reflects a somewhat ambiguous position, as noted by Pierre Manent, in whose view the Church gives a contradictory definition of itself. Granted, it unceasingly reminds us that it has no organisational model of society to promote; granted, it asserts a clear separation of the temporal and spiritual spheres, and even more strongly since the Vatican Council, because the kingdom that it heralds is not of this world, but its teaching is intended for this world, and so evidently that the Church feels it has not only a “right of inspection” but also and especially a “duty of inspection” if the promised salvation is in jeopardy. As political, social and economic actions carry heavy consequences, the Church can justify its interventions ad infinitum.*<sup>43</sup>

*The SDC holds the liberal individualism of the Enlightenment and socialist atheism responsible for economic and social disorder, which explains its intrusion into economics: in the Church’s view, the former laid the foundations for the pre-eminence of the competitive market economy, thus impairing the ability of morality and politics to regulate modern society without problems of justice; and the latter provided totalitarian answers.*

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doctrine, by which it moves through history without being conditioned by history or running the risk of fading away.” (*Compendium*, § 85, quoting from *Sollicitudo rei socialis*-3).

<sup>43</sup> We are indebted for this idea to Pierre Manent, *Histoire intellectuelle du libéralisme*, chapter 1: Europe and the theologico-political problem, pg. 17-30, Paris, Calman-Lévy, 1987.