Toward a Theology of Profit

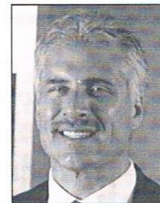
Profit, as defined by the accounting profession, is the excess of total revenues over total costs. Economists define "pure profit" as the amount of money remaining after making all payments for productive services and raw materials after the going rate of payments for the capital invested has been deducted. Profit is the estimated claim on wealth that can be used as capital for new efforts to create wealth. A Christian perspective on profit requires a correct understanding of what profit actually is, how it is created, who has a just claim on it, and what role it plays in a business, all in the context of a biblical understanding of human nature, stewardship, justice, and community.

Understanding Profit

Profit in an organization must be understood in the context of the productivity of capital. In the long term, the return on invested capital must exceed the cost of capital to the organization. If the firm fails to do so, it is technically a destroyer of all kinds of wealth in society—finances, intellect, and humanity.

The corporation does not exist for its own survival. Business organizations are organized as stewards of resources to meet needs and aspirations in society. Every organization has a vocation, a specific reason for existence. The primary vocation of business is the production of goods and services to sustain and enhance the human experience, thus contributing to the fulfillment of the cultural mandate given to us in creation (Gen 1:28–30). The measure of the organization's fidelity to that vocation is the value it creates in society. As a member of an interlocking system of associations, business organizations exist for the common good and ultimately will be judged by the degree to which they cooperate with God in implementing his purposes for creation.

If an organization produces a product or service that does not fulfill a need or aspiration, it loses its legitimate reason for existence. Companies exist only as they continue to benefit customers. When they no longer create goods or services that are valued, they will be unable to create profit and will cease to exist. For example, the makers of buggies ceased to exist when customers no longer chose the horse as the primary means of transportation.



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Profit and the Purpose of Business

Fundamentally, the purpose of business is to create a customer, not to make a profit. But when they are properly functioning, organizations will make a profit. This differentiation between purpose and function is critical for Christians who are trying to reflect on how they are called to express their faith in the workplace. Function focuses on economic criteria while purpose asks, Profit for what purpose?

Profit is perhaps best understood analogously: profit to a business is like blood to a person. Just as persons cannot live without blood, organizations cannot live without profit. Just as healthy persons do not live *for* their blood, organizations do not live *for* profit. They cannot live without it, but do not live for it. In the same way, we eat to live rather than live to eat. Organizations must have profit to guarantee their survival. Nevertheless, any discussion of profit must first be placed in the philosophical framework of the mission or purpose of the organization. We need additional criteria besides profit for measuring a company's performance.

How Profit is Created

The creation of profit begins with the production of goods and services that fulfill human needs. Taken from the user's perspective, the customer is the ultimate definer of value. In a market economy, customers exchange money for the value created by the goods or services.

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Creating value for the customer, however, is not the same thing as creating profit for the organization. Profit, from the firm's perspective, is the incremental value that exceeds the cost of creating that value. So how do companies create a profit? The first determinant of this is how they create revenue. In a market economy, customers are free to purchase what they value. In the short run, the greatest influence on what price they pay is demand. The availability of the particular good in the context of its demand will determine the transaction price. But over the long term in a competitive market economy with access to information, the cost of production is the major driver of the transaction price. Taken together, demand and cost of production seem to establish the transaction price as simply "what the market will bear."

Although economists generally affirm that a just price is what the market will bear, Christians are required to reflect on this in light of the biblical message. Is there such a thing as an unethical amount of profit on a transaction?

Profit and Justice

Underlying the transaction by which the customer exchanges money for goods or services is the issue of justice, specifically commutative justice, which prohibits doing harm. Justice is a primary expression of vocation for all Christians in the marketplace. For an exchange to be just, both the seller and the buyer must receive an equivalence of exchange. To accomplish this, both must be empowered with equal competence. The price must not be established because the buyer is ignorant and uninformed about the product or service. This is the purpose of advertising. Assuming a non-coercive environment, a free exchange should take place. The seller offers a value that fulfills a need in the customer for which the customer willingly pays. In the coercive world of advertising this free exchange is usually compromised.

The biblical framework for this evaluation is covenant and justice in the context of community. Covenant implies a relationship that exists to serve the well-being of all parties to it, including the communities in which the organizations serve. They serve their neighbour with the exchange of goods and the promise that the customer will receive the goods they were promised. As Karl Marx insisted, justice in the business covenant concerns not only fair play with the customer but also with the producer. He argued that companies do so by purchasing the one commodity that can

create a value greater than its own—labour power. Marx tried to dispel the illusion that labourers were well-paid for their work. Labour creates value, and when it is not remunerated it is being exploited. What Marx failed to discern is that capital is never produced by labour alone, but rather reproduces itself. The amount of profit is determined not only by the price the customer pays but also by the value of the labour and the productivity of capital. So we must think deeply about not only just compensation for labour but also the stewardship of resources, especially the capital entrusted to the corporation.

Distributing Profit

A further theological issue is what to do with profit. When the firm creates profit in excess of its cost-of-capital, to whom should the surplus go, and what criteria should be used to distribute it?

The potential recipients of this "pure profit" are the stakeholders in the organization: the stockholders, employees, customers, suppliers, and communities. We must distribute "surplus profit" in a way congruent with the biblical witness that balances responsibilities, risk, and return.

Stockholders entrust their capital to an organization. By doing so, they should be compensated for the opportunities foreclosed by trusting their savings to one organization over another. Any profit less than "pure profit" belongs to the stockholders who are not being justly compensated for their investment until the "profit" level equals the rate of return captured in the cost of capital.

To determine what responsibilities the company has to distribute surplus profit to the stockholders, the following issues must be considered: First, what is the level of risk in the industry? Second, did the stockholders forego any return during a start-up period? Have all the aggregate requirements for return on capital been realized? (Capital is continuous as opposed to a sunk cost, so no static period for defining value can ever be absolute.) Third, what is the relationship among the stakeholders for creating value? Is an ongoing access to capital the primary sustainer of competitive advantage? Is the business a capital-intensive business as opposed to a labour-intensive business? (If so, it is equitable for those who are the providers of capital to be rewarded and to receive the highest return, as they are the most responsible for its success and have taken the greatest risk.)

Now we must consider whether employees should share in the profit. Profit-sharing for employees is growing in popularity for utilitarian purposes; that is, it seems to work. But there is a more important reason. From the perspective of justice and community, profit-sharing links performance to the community. Each member is independent and contributes to the communal well-being. Consequently, each person feels some measure of accountability for results. Because we were created as relational people, being accountable and responsible for the effort of the community as a whole correctly aligns the individual and the community in a consistent way. We were created to live and work in this way—for the common good.

How much profit relative to other stakeholders should go to employees is dependent on the following issues: First, is the business a labour-intensive business? Is the primary value related to the efforts of the employees, or is the business an extremely capital-intensive business? And second, what is the level of risk associated for the employee—physical, psychological, and in terms of time or lost opportunities for the future? (Employees also have a "cost-of-capital" in that their labour value is at risk when they join a firm. They forego future opportunities for developing their skills and knowledge when they commit to an organization. Employees should be justly rewarded for that commitment when it creates exceptional profit.)

Suppliers are part of the independent community of the organization and therefore have a stake in the performance of a firm. Relationships with suppliers should be structured to reward them for the value they bring to the company. If the work of a particular supplier is a major strategic advantage, then their compensation should include access in some way to the profit they help create. This clearly enhances the relationship between the two organizations and creates the sense of common unity.

The communities where an organization conducts business are also responsible for the success of the organization. School systems, social services, and arts programs all play a role in shaping the capacities and character of the employees. Additionally, they all have a stake in the ongoing success of the firm.

Customers also have a stake in the firm because they depend on it to meet their needs. Therefore, the firm has a responsibility to reinvest future funds to ensure its ability to continue to service the needs of customers. In these ways, all stakeholders should share in the profits of a business.

Conclusion

Some have argued that business has no social responsibility other than making a profit ethically. This argument fails to understand the systemic nature of the economy and human community. A business does not operate in a vacuum but is the recipient of shared cultural and intellectual wealth and is accountable to the community. As a major influence of life in today's society, business has a responsibility to reflect on what that means. It is strategically positioned in society to express justice, covenant community, and stewardship. In so doing, business can fulfill its calling and serve God's purposes on earth for the good of humankind and creation. ⊛

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