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THE PRINCIPLE OF SUBSIDIARITY IN ORGANIZATIONS.  
A CASE STUDY

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## **THE PRINCIPLE OF SUBSIDIARITY IN ORGANIZATIONS. A CASE STUDY**

### **Abstract**

The principle of subsidiarity holds that a larger and greater body should not exercise functions which can be carried out efficiently by one smaller and lesser, but rather the former should support the latter and help to coordinate its activity with the activities of the whole community.

According to some authors, businesses ought to be considered as human communities and, consequently, the principle of subsidiarity should be an ethical premise for designing business organizations. However, this principle has rarely been applied to business organizations as yet.

This paper presents the bases and contents of the principle of subsidiarity, and the ethical requirements for the design of business organizations that flow from it. Subsidiarity is an ethical framework for employee autonomy, initiative, entrepreneurial spirit, and responsibility. It bears some similarities to the managerial concepts of “decentralization” and “empowerment,” but differs from them both in its foundation and in its application. A case study of a medium-sized firm describes an organizational change which takes the principle of subsidiarity into account. Reflection on the subsidiarity principle and the use of appropriate managerial tools proved successful in improving various aspects of this organization. The paper concludes by presenting some suggestions for effective implementation of the subsidiarity principle in business organizations.

**Keywords:** subsidiarity, entrepreneurial spirit, empowerment, Catholic social teaching, organizational design, Spain.

## **THE PRINCIPLE OF SUBSIDIARITY IN ORGANIZATIONS. A CASE STUDY**

### **Introduction**

From the beginning of the 20th century, organizations were designed as rigid structures and work was managed by assigning tasks to others and strictly monitoring performance. Fortunately, this approach has changed and now many organizations are much more flexible; today, many employees have far more scope for initiative in their work, and more power to make decisions and take responsibility for results.

Decentralization, delegation and empowerment are now relatively common in many organizations. A decentralized organization is one in which management consciously attempts to distribute authority widely among the lower levels. Delegation means managers assigning part of their work and power to other employees, while empowerment (the most recent of these concepts) means giving employees greater involvement in their jobs, mainly by increasing their participation in decision-making. Managers have found that, when these concepts are applied properly, organizations become more efficient, and that this is reflected in the bottom line.

From an ethical perspective, these practices have an affinity with certain requirements that flow from the principle of subsidiarity, although subsidiarity differs from these practices in both its roots and its philosophy, as we shall try to explain here, with special emphasis on empowerment.

Although further clarification will be provided throughout this paper, we could give an idea of what subsidiarity is about by saying that a larger and greater body should not exercise functions which can be carried out efficiently by one smaller and lesser, but rather the former should support the latter and help to coordinate its activity with the activities of the community as a whole.

Partly because it is mentioned in several important European Union (EU) documents, including the Charter of Fundamental Rights<sup>1</sup>, the principle of subsidiarity is

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<sup>1</sup> Among them, the Charter of Fundamental Rights of the European Union, signed in Nice in December 7, 2002. In its Preamble, it is stated, "This Charter reaffirms, with due regard for the powers and tasks of the Community and the Union and the principle of subsidiarity, the rights as they result..." Again, the principle of subsidiarity is mentioned within the scope of the general provisions of the Charter (Art. 51.1). In Art 51.1, the Charter proclaims: "The provisions of this Charter are addressed to the institutions and bodies of the Union with due regard for the principle of subsidiarity and to the Member States only when they are implementing Union law. They shall therefore respect the rights, observe the principles and promote the application thereof in accordance with their respective powers." The concept of subsidiarity was introduced into the European Economic Community Treaty, for the first time, by the Single European Act (SEA) (European Union, 1987), in the context of the environmental policy (Art. 130 r (4)). According to Schilling (1995), the principle of subsidiarity "is now the second most often mentioned principle in the European Treaties; only the prohibition of discrimination is mentioned in more places. Its specific importance is underscored by the decisive rôle it played in the success of the Maastricht Conference and in the ultimately successful efforts to dispel widespread popular concern about the Maastricht Treaty. Plainly, therefore, it appears at the outset that it must be taken very seriously indeed."

widely known. It was introduced in the EU mainly for the purpose of determining the allocation of powers within the Union (Henkel, 2002), and it has been used in accordance with several significant judicial rulings by the European Court of Justice (Búrca, 1998). However, the principle of subsidiarity was originally neither a rule nor a political principle, but a socio-ethical principle proposed by Catholic social tradition (CST) many years ago, and has been mentioned frequently within this tradition in connection with issues such as the relationships between social groups and the State, social initiative in education, the role of the State within the economic system, and relationships between developing nations and advanced nations (Barrera, 2001).

Several scholars have argued that businesses should be considered as communities of persons (Solomon, 1992; Fitte, 2003; among others), and consequently that the principle of subsidiarity should be applied to them, as it is equally applicable to all human communities. And yet, the literature on subsidiarity in business organizations (e.g., Handy, 1990; Naughton and Alford, 2001) is very limited.

In this paper we aim to help fill this vacuum by discussing the bases and contents of the principle of subsidiarity, and setting out the requirements for the design of business organizations. We also discuss how subsidiarity can serve as an ethical framework to foster employee initiative and entrepreneurial spirit.

The paper is organized as follows: First, we present the principle of subsidiarity and explore its foundations and contents. Second, we compare subsidiarity with the managerial concept of empowerment, pointing out similarities and differences. Third, we present some considerations for the effective implementation of the subsidiarity principle in business organizations. Finally, we describe the experience of a medium-sized firm to illustrate how the principle of subsidiarity and appropriate managerial tools can improve significant aspects of an organization.

## **The Principle of Subsidiarity**

Although it can be traced back to the Middle Ages and the Renaissance, strictly speaking the principle of subsidiarity was first introduced in the 19<sup>th</sup> century (Höffner, 1996). The German bishop Ketteler talked about the “subsidiary right,” and Pope Leo XIII referred to it twice in his celebrated encyclical *Rerum novarum* (1891): first, when he judged that the absorption of the individual and the family by the State is an injustice (no. 26); and second, when pointing out that the State has an obligation to protect legitimate associations of citizens without interfering in their internal structure or the running of them (no. 38). The principle of subsidiarity was clearly formulated in the 20<sup>th</sup> century. Two definitions are worth quoting<sup>2</sup>:

Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to

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<sup>2</sup> Two shorter definitions are as follows: “That which individuals can make on their own and with their own strength should not be taken away and given to the community; the same has to be said for smaller and lesser societies or groups with respect to their relationship with larger and higher societies or groups” (Pope Pius XII, 1946, n. 9); “In accordance with the principle of subsidiarity, neither the state nor any larger society should substitute itself for the initiative and responsibility of individuals and intermediary bodies” (Catechism of the Catholic Church, 1994, n. 1894).

a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them. (Pope Pius XI, 1931, no. 79)

A community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in the case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good. (Pope John Paul II, 1991, no. 48)

Although the principle of subsidiarity has been developed within the Catholic tradition, it has rational bases which relate to other philosophical traditions, and consequently may be acceptable to a wide spectrum of people. In fact, underlying these formulations are several ethical concepts which support the principle:

*a) Respecting and fostering human freedom*

Human beings are social animals, wrote Aristotle (*Politics*, I, 2, 1253a1), and it is in society that persons develop. According to Aristotelian tradition, life requires a responsible use of freedom and a degree of cooperation or solidarity between individual and the groups to which they belong, but freedom comes first. So, freedom has to be respected and even promoted to achieve a humane society. If social life is necessary to achieve human fulfillment, freedom is also necessary to that same end, because without free actions there can be no moral growth. The principle of subsidiarity respects and fosters human freedom, as expressed in having the power to make decisions and do business. Simultaneously, it opposes all ideologies in which freedom is not sufficiently respected in social life, and those in which a rule of solidarity is imposed by the power of a superior social entity, without respect for the freedom and the entrepreneurial sprit of individuals and inferior communities.

*b) Respect for human dignity*

Human beings have dignity and so should never be considered as mere means serving the interests of others. This is accepted by Kant as a categorical imperative, and also by other approaches that recognize the intrinsic dignity of every human being for other reasons, particularly the Judeo-Christian tradition, for which human beings have been created in the image of God. An immediate consequence is that persons ought not to be exploited, but treated with respect and consideration. Therefore, it is not right to undervalue people's activity by turning them into an anonymous element of the production system. The principle of subsidiarity is consistent with this premise, and when applied, gives prominence to individuals and small groups within an organization, so that employees do not see themselves as mere cogs in the organizational machinery.

*c) Considering diversity*

Persons are diverse, and so are groups of people in any community, including business communities. Each person is unique and has his or her own peculiarities. Diversity

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<sup>3</sup> Vatican Council II, Const. *Gaudium et spes*, n. 26.

enriches human groups, because each can make a different contribution. A certain unity is necessary in every organization, but total unification and exaggerated uniformity are incompatible with the natural diversity of people and prevent the development of potential diversity. The importance of diversity for social life was apparent to Aristotle, who wrote: “Certainly there must be some unity in a state, as in a household, but not an absolute total unity. There comes a point where the state, if it does not cease to be a state altogether, will certainly come close to that and be a worse one; it is as if one were to reduce concord to unison or rhythm to a single beat” (*Politics*, II, 5, 1263b29). Just as harmony disappears when all voices sing the same note, similarly “a city is made up of diversity” (*civitas ex diversis consistens*), added Aquinas (*In Politica*, II, 5, no. 2), in a comment on this Aristotelian text.

#### *d) Contribution to the common good*

Freedom is necessary for human flourishing, but it is not sufficient. Again, it is worth mentioning Aristotle, who wrote, “As man is the best of all animals when he reaches his full development, so he is worst of all when he is divorced from law and justice” (Aristotle, *Politics*, I, 2, 1253a29). A primary requirement of justice is to contribute to the common good (Finnis, 2001). The common good is understood here as “the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily.”<sup>3</sup> The common good is closely related to human fulfillment as a prominent goal for any society and for all human activity, including productive processes. Respecting freedom, human dignity, and diversity is already a part of the common good. In addition, the common good can be benefited by initiative, entrepreneurial spirit, inventiveness, and other personal capacities fostered by the principle of subsidiarity. Subsidiarity promotes acting freely and being an entrepreneur. In contrast, breaching subsidiarity by imposing unnecessary constraints on human action reduces the chances of people acting freely, and so makes human flourishing less likely.

The entire principle of subsidiarity is supported by giving due consideration to the human person, and is oriented toward fostering human flourishing. Thus, it is not merely a rule for assigning power, but an ethical principle for communities.

### **The Principle of Subsidiarity and Empowerment in Organizations**

The principle of subsidiarity requires that employees have the freedom to organize their work, to take initiatives, and to make decisions within the unity of the organization. As we said in the introduction, this has a great deal to do with managerial practices such as empowerment. But subsidiarity and empowerment are actually quite different in several respects (see Table 1).

**Table 1. Empowerment vs. Principle of Subsidiarity**

<b>EMPOWERMENT</b>	<b>PRINCIPLE OF SUBSIDIARITY</b>
Empowerment is a means to obtaining better results or competitive advantages.	This principle prescribes the creation of structures, according to the circumstances, in which persons can flourish as human beings.
Managers assign part of their power to employees.	Recognition that employees should have the power to organize their own work and to make decisions.
Frequently used as a pragmatic tool or as a technique.	This is a principle of reflection which needs careful and wise consideration of circumstances before it is applied.
Empowerment permits workers to make decisions. Some authors give suggestions for how to succeed in empowerment.	The principle of subsidiarity requires that workers organize themselves and make decisions stimulated by management. This could include training and technical and personal support.

Underlying the concept of empowerment is the idea that managers have power, which they have received from the owners of a company, and part of which they assign to their subordinates. A number of goals are used to justify the introduction of empowerment in an organization: it contributes to the continuous improvement of quality, productivity and service; it gives the organization greater flexibility to adapt to personnel requirements and changing situations in customers and markets; it helps to reduce operating costs by eliminating supervisors and intermediate managers; it offers a quicker answer to technological changes, a simpler and more closely defined job classification, a better answer to what workers want, and a greater ability to attract and retain talented people (Wellins, Byham and Wilson, 1991, 10-13).

While empowerment is conceived as a means to obtain better results or competitive advantages, the purpose of subsidiarity is to create structures in which persons can flourish as human beings. The principle of subsidiarity does not deny that managers have power nor that organizations need authority to coordinate and build unity within themselves; the point, however, is not to “give power” to employees, but to recognize that the dignity, freedom, and diversity of employees should be duly considered, as should their capacity to contribute to the common good of business and the whole of society. This requires that employees have the power to organize their own work and make decisions.

In spite of this difference, in practice it seems that the implementation of empowerment can provide some insights into how best to implement the principle of subsidiarity. And conversely, the principle of subsidiarity can shed some light on the ethics of the implementation of empowerment.

Empowerment started with the pioneering experience of Procter & Gamble in their Topka, Kansas plant, and continued with Cummins Diesel, and General Motors in the 1960s and early 1970s (Lawler, 1990). This undertaking spread slowly, up until the middle of the 1980s. Since then, empowerment has been enjoying a boom. Nowadays, “empowerment remains one of the most promising, yet mystifying concepts in business” (Randolph, 2000, p. 94). However,

an effective implementation has yet to be achieved, and the results reported to date have been contradictory.

Empowerment has been considered in the context of strategies and tactics of resource allocation to increase the power of the less powerful parties and reduce the power of the more powerful ones. Darraugh states that employee empowerment is “getting workers to do what needs to be done rather than doing what they are told” (1991, p. 3). Similarly, Tschohl defines empowerment as “allowing employees to do whatever they can –including bending company rules– to satisfy the customer” (2003, p. 25).

Most literature on empowerment takes a practical approach, which includes practices and experiences. These practices deal with how to organize work at the lower levels of the organization, and how people at that level can make decisions day-to-day. Empowerment means, for instance, authorizing sales agents to resolve complaints within a wide range of complaint types; encouraging salespersons to use their initiative in dealing with customers and accept the return of damaged products without having to consult their supervisor; or permitting workers to organize themselves independently, even to the point of deciding to stop a machine and repair it in order to solve a quality problem.

Some scholars have focused not only on what empowerment is and how it can be implemented, but also on the psychological reaction in people who have been empowered. According to Conger and Kanungo (1988), empowerment involves “a process of enhancing feelings of self-efficacy among organizational members through the identification of conditions that foster powerlessness and through their removal by both formal organizational practices and informal techniques of providing efficacy information” (p. 474). Along the same lines, Kanungo (1992) considers that lack of empowerment is the cause of psychological alienation at work.

Other authors have found that empowerment, correctly applied, favors motivation, loyalty, creativity, and satisfaction in employees, and so increases potential productivity, efficiency, and competitiveness (Hammuda and Dulaimi, 1997). According to Sparks *et al.* (1997) and Bushe and Havlovic (1996), empowered employees generate more satisfaction in customers than employees who are not empowered. In addition, managers of companies committed to empowerment obtain wider and more detailed information from their employees (Hildula 1996).

However, these pleasing results are far from universal. Cases in which the implementation of empowerment has failed are abundant. Khan (1997, 46-47), after analyzing a wide-ranging survey, gave six reasons why empowerment sometimes does not succeed: lack of sustained management support and commitment; empowerment is used as a manipulative tool to ensure that employees complete tasks and assignments; managers use empowerment to abdicate managerial responsibility and task accountability; empowerment is deployed selectively, segmenting the workforce into those who are empowered to use their brainpower and creativity to solve problems and those who are not; empowerment is used as an excuse not to invest in training or developing employee skills; managers fail to provide feedback and constructive suggestions and do not recognize achievements. Forrester (2000) added other reasons, somewhat complementary to the ones just mentioned: precipitous empowerment mandates; overreliance on a narrow psychological concept of empowerment; one-size-fits-all empowerment; neglecting the needs of power shared; a piecemeal approach; and distortions of accountability.



Probably, most of these problems are ultimately the consequence of mishandling empowerment, and perhaps of considering empowerment as a technique that guarantees results. Quinn and Gretchen (1997) hold that most empowerment programs are embedded in a mechanistic perspective, which assumes that empowerment is a set of managerial practices focused on cascading power to lower levels, although this is in fact an incomplete perspective. As an alternative, they suggest juxtaposing another perspective which embodies personal risk, trust, and initiative.

Argyris (1998) has identified two further obstacles to the effective implementation of empowerment in organizations, one attributable to managers and the other to employees: “managers love empowerment in theory, but the command-and-control model is what they trust and know best. For their part, employees are often ambivalent about empowerment –it is great as long as they are not held accountable.” As a consequence, “despite all the best efforts that have gone into fostering empowerment, it remains very much like the emperor’s new clothes: we praise it loudly in public and ask ourselves privately why we can’t see it” (pp. 98-99). Most likely, managers and employees alike have a narrow understanding of empowerment.

There is no doubt that empowerment needs an appropriate perspective, which is not always present. Using empowerment as a technique is not enough. The psychological perspective gives a broader focus (Forrester, 2000), but if empowerment lacks a sound ethical foundation, people can feel they are being manipulated, and so commitment and trust will fail.

Khan (1997) has pointed out that empowerment has a relational dimension. For him “empowerment is essentially an on-going interpersonal relationship that fosters mutual trust between employers and employees” (p. 44). But not every implementation of empowerment does that.

If empowerment requires mutual trust between employers and employees, it will also require a philosophy and consistent behavior to foster it. Ward (1997) points out that success in implementing empowerment requires genuine commitment between employers and employees, which is fostered by information systems that maintain such commitment and avoid forced submission. The principle of subsidiarity seems a necessary condition for developing both these conditions –trust and commitment– as it considers employees not as a mere resource for obtaining profit but as persons with freedom, dignity, and diversity; at the same time, it fosters an organizational design in which people’s personal development and the common good are paramount.

Some authors have identified steps to be taken to implement the ethical aspects of empowerment. For example, it should be applied responsibly (Gandz and Bird, 1996); it should be applied with courage and honesty (Ettorre, 1997); and it “offers a way of treating people with honesty” (Kempton, 1995, p. 209). The principle of subsidiarity tries to go beyond these approaches by providing an ethical framework for designing business organizations.

## The Principle of Subsidiarity in the Organizational Context

Handy (1990) has pointed to an emerging new kind of organization that he calls “federal organizations.” A federal organization is more than just a decentralized organization; it takes the principle of subsidiarity into account. A set of subsidiary parts are federated around a center. The center is small; it does not control the activities of the parts, but advises and influences them; it reserves to itself only a few key decisions, such as capital allocation and executive appointments. This kind of organization needs a considerable amount of trust and confidence (apart from other characteristics). Handy compares this form of organization to a university or college.

From a different perspective, Naughton and Alford (2001 pp. 99 ff.) present a case on design work in a manufacturing process in which the principle of subsidiarity was applied. Handy (1999) regards the principle of subsidiarity as a positive attitude in managers. He criticizes “people who attract other people’s problem like magnets (...); managers who see it as their only duty to solve all their subordinates’ problems for them.” On the contrary, he argues that “stealing people’s problems means stealing their choices, and unless they are totally incapable, that’s denying them some of the responsibility that is their due” (1999, p. 7).

If the principle of subsidiarity is universal, as has been said, it should be present in all kinds of organizations, although in different guises. The challenge is to make the principle of subsidiarity operative through appropriate managerial systems. But, first of all, a better understanding of this principle and some specific comments regarding organizations are necessary.

First, it should be stated that all formulations of the principle of subsidiarity include a clear ethical content, expressed in terms such as: acting against this principle is “an injustice,” or “contrary to the common good.” The principle of subsidiarity is therefore an ethical principle, not a pragmatic rule or a mere political principle aimed simply at deciding how power should be shared out.

Secondly, the principle of subsidiarity is a principle for reflection<sup>4</sup>. Being a “principle for reflection,” rather than a mechanical rule, it needs to be applied in each case through consideration of all relevant circumstances. Therefore, the way it is applied in practice may differ widely from one situation to another.

Third, subsidiarity entails a set of ethical prohibitions for the authority of the superior social entity (in the case of a company, corporate governance or top management). Specifically, it obliges authority to neither prevent whatever may be done by an inferior social group, nor absorb it by transferring the task of an inferior social group to a superior social entity.

Fourth, it indirectly requires that individuals and inferior social groups do as much as they can. The words “what they (individuals) can accomplish by their own initiative and industry” imply a positive requirement to be entrepreneurial, to use initiative, and to strive to obtain whatever one can to the best of one’s abilities. In other words, the principle of subsidiarity entails both freedom and the corresponding responsibility and accountability.

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<sup>4</sup> Catholic Social Teaching insists that the principle of subsidiarity is “a crucial principle of social philosophy, permanent, it cannot be removed” (Pope Pius XI, 1931, n. 79); “an unchanging and unremovable principle” (Pope John XXIII, 1961, n. 53).

Fifth, it highlights the duty of the superior entity to foster the initiative of the inferior groups by encouraging and stimulating their activity. This is what is meant by “to furnish help to the members of the body social” (in Latin, “*subsidium afferre membris corporis sociales*”). *Subsidium* is the key word. For Romans, “*subsidium*” meant “giving help from the reserve” to those who are in the vanguard of the battle.

Sixth, this principle also implies that if an individual or an inferior group cannot perform a necessary activity, even when given appropriate help, then the superior group can and ought to carry out that activity.

Seventh, since the principle of subsidiarity has to be understood “always with a view to the common good,” the superior group must ensure that initiatives contribute to the good of the whole community. This involves coordinating the social groups and keeping order within the superior community.

Given these considerations and a knowledge of the reality of business organizations, we propose the following criteria for the application of the principle of subsidiarity in business organizations:

1. The subsidiarity principle should not be applied as a technique but as a *philosophy*, deriving from the centrality of persons within the production process and as an ethical requirement flowing from human freedom, dignity, and diversity.
2. The principle of subsidiarity and its implementation require a *cultural context* in which the priority of persons over process is respected. If such a context is not given, there will have to be a process of cultural change that gives prominence to persons in all aspects of the organization. Otherwise, the subsidiarity principle cannot be credible.
3. To implement the principle of subsidiarity, particular *circumstances*, including employees’ abilities and the means available, must be considered in light of practical wisdom.
4. The principle of subsidiarity means giving real *power* and responsibility to employees and lower groups within an organization, with the whole organization having an understanding of, and a respect for, the common good. Higher groups ought neither absorb nor prevent anything that can be done by an inferior social group.
5. Higher bodies and management must provide *support* to lower levels in performing their responsibilities and help them to develop their capabilities and skills by giving training, information, computer support, advice, feedback, etc.
6. Top managers must strive to maintain *unity* within diversity in order to achieve the goals of the whole organization, by encouraging and coordinating activities, maintaining fluid communication, and building a sense of trust and cooperation through other cultural values which give a sense of belonging to the community of persons.
7. Employees and lower groups must assume their responsibility and accountability for doing whatever they can on their own *initiative*, by taking initiatives and developing an entrepreneurial spirit.

A practical example will illustrate how the principle of subsidiarity can be applied, though it should be emphasized that subsidiarity is a principle for reflection and will have to be tailored to each situation to be effective. The case presented below describes an organizational change carried out in Fremap, a medium-sized Spanish organization. The change began in 1992 and is ongoing. The results have been excellent, in both the ethical and the economic dimensions.

### **The Principle of Subsidiarity in Practice: A Case Study**

Fremap is a non-profit mutual insurance company, founded in 1933<sup>5</sup>. It helps to manage Spanish social security, taking on the following tasks:

- Risk management pertaining to work accidents and occupational diseases.
- Financial benefits arising from temporary incapacity from common illness and non-occupational accidents.
- In addition, Fremap also offers its associate companies an occupational risk prevention service.

Fremap has branches throughout Spain and health care services in medical centers and hospitals distributed throughout the country.

Up to 1992, the organization was designed following the criterion of the “scientific organization” of work. Fremap’s administrative structure –based on departments and well-defined job categories– had remained practically unchanged since 1933. The associated management systems had not changed substantially either, even taking into account the decentralization efforts of recent years. That structure led to a high degree of specialization, created rigid hierarchical divisions, and divided up areas of activity with niches and boundaries that served no useful purpose. Too much importance was given to resolving bureaucratic issues, to the detriment of customer service: the focus was less on solving problems than on getting the paperwork done. The dossier on a sick worker seeking assistance from Fremap could pass through several different employees (up to eight, depending on the problem), each of whom would review one aspect of the dossier. The head of each Fremap branch would supervise the process and deal with customers.

In 1988, over a period of several months, all of Fremap’s employees took part in an attempt to identify the values that defined Fremap as a company. These investigations highlighted two values, which became Fremap’s guiding principles: ethics, and the idea of the person as the center of social relationships. Quality was another implicit value. In the words of Fremap’s CEO, Mr. Carlos Alvarez, “all our principles laid the foundations for quality.” However, Mr. Alvarez realized that there was a gap between the shared values and the structure of the organization.

The basic idea behind the change was that a single Fremap employee should be able to solve all of a particular customer’s problems, whether the customer was a company or a worker. Most employees were able to do so. Mr Alvarez reasoned in a straightforward way: “Our employees are adults who, when they go home after work, behave as such: they raise a

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<sup>5</sup> Until 1992, it operated under the name of Mapfre, Mutua Patronal. The following factual description is based on Andreu and Ricart (1995, 1998), Andreu (2004), Anonymous (2003a, 2003b), and Alvarez (1996).

family, act as parents and spouses, make financial and investment decisions... But at work, many of them just move papers around! And if we look at it from the point of view of the customer, there also were grounds for dissatisfaction; in the end, it was difficult for a customer to know who was dealing with his particular case; what we had were dossiers, which were handled by several different employees, not individual case histories. In short, our own internal structure worked against integrated claims processing. We needed to place more emphasis on interpersonal relationships and to integrate.”

Instead of several employees being needed to solve each problem, a new concept was introduced, that of the “integral agent,” reporting only to the branch manager. The idea was that job categories would be wiped out and that all clerical personnel should be able to conduct all relations between Fremap and a particular customer. The integral agent would not supervise other employees; she would be directly responsible for taking whatever steps might be necessary to resolve the problems of the customers assigned to her.

Customers are assigned to agents on a territorial basis: in any given territory, the agent deals with all aspects of the relationship between Fremap and its customers. Each integral agent acts independently in her area of influence but also as a member of a team. Each pair of agents shares a salesperson and a prevention technician, each of whom therefore covers two areas. The basic team thus consists of two agents, a sales representative, and a technician. Even though each member of the team works independently within his/her own area of responsibility, it is understood that they will provide mutual support, standing in for one another during periods of sickness or holidays, etc. The branches are given considerable freedom and room for maneuver, so that they can adapt at their own pace. They all have come a long way, though traveling at different speeds.

Now, Fremap puts integral agents at the forefront, encouraging them to “get out on the streets.” Mr Alvarez believes that “this helps to them to stay close to customers, who appreciate the personal attention; in addition, it is an excellent source of learning. Seeing customers personally brings greater satisfaction and learning than solving problems over the phone.” At the same time, integral agents must also be available by phone. Fremap has found a way to achieve both objectives, by having pairs of integral agents work together as a team; each knows the other’s customers, and between them, they coordinate their activities as they see fit, as regards going out to visit customers, and also for sick leave, holidays, etc.

From the start, management gave strong support to the new organization, providing training and appropriate information systems, which are currently being reassessed, with a view to updating the technological infrastructure. Technological support was accompanied by continuous reflection on the company’s values, which were seen as its anchor, because they were immovable. Subsequently, an agent appraisal system was introduced, and initiatives to enable people to share their experiences and go on learning from one another were encouraged.

A set of differences can be noted between the old system and the new. They fall under three headings: 1) meaningful work, 2) development of human capabilities, and 3) sense of service (see Table 2). All these concepts are relevant for human flourishing. There is no doubt that the new system can foster all of them much more effectively than the old one.

Table 2. FREMAP: Old System vs. New System

OLD SYSTEM	NEW SYSTEM
<b>Meaningful work</b>	
<ul style="list-style-type: none"> <li>• Employees (up to 8) deal with <i>partial aspects</i> of each case.</li> <li>• The employee <i>monitors data</i>.</li> <li>• <i>Low</i> IS and technological support.</li> <li>• <i>High degree of specialization</i>.</li> <li>• Employees <i>know only their job</i>.</li> <li>• Short <i>technical training</i> focused on a specific job.</li> <li>• Employees work at a <i>boring task</i> and <i>feel alienated</i>.</li> <li>• Employees have a <i>partial vision</i> of the process.</li> </ul>	<ul style="list-style-type: none"> <li>• One employee solves <i>all aspects</i> of each case.</li> <li>• The employee <i>manages cases</i>.</li> <li>• <i>High</i> IS and technological support.</li> <li>• <i>Low degree of specialization</i>.</li> <li>• Employees <i>know the whole process</i>.</li> <li>• Extensive <i>training</i> focused on the whole process.</li> <li>• Employees feel they are working on <i>an interesting task</i>.</li> <li>• Employees have a <i>global vision</i> of the process.</li> </ul>
<b>Human capabilities</b>	
<ul style="list-style-type: none"> <li>• Employees <i>have little initiative</i>.</li> <li>• <i>Scant power for making decisions</i>.</li> <li>• <i>Purely operational work</i>.</li> <li>• Employees <i>merely execute</i>.</li> <li>• Work is <i>static and repetitive</i>.</li> <li>• Employees use <i>few capabilities</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees <i>have considerable initiative</i>.</li> <li>• <i>Considerable power for making decisions</i>.</li> <li>• <i>Operational and managerial work</i>.</li> <li>• Employees <i>manage their work</i>.</li> <li>• Work is <i>dynamic and varied</i>.</li> <li>• Employees use <i>many capabilities</i>.</li> </ul>
<b>Sense of service</b>	
<ul style="list-style-type: none"> <li>• Employees <i>work together</i>.</li> <li>• <i>Scarce proximity to customers</i>.</li> <li>• Task focused on <i>WHAT</i> is done.</li> <li>• The <i>sense of service is low</i>.</li> <li>• The branch <i>director bears responsibility</i> for customers.</li> <li>• <i>Motivation</i> is basically by money and promotion (<b>extrinsic</b>).</li> </ul>	<ul style="list-style-type: none"> <li>• Employees <i>work as a team</i>.</li> <li>• <i>Proximity to customers</i>.</li> <li>• Task focused on <i>FOR WHOM</i> things are done.</li> <li>• The <i>sense of service is high</i>.</li> <li>• <i>Each employee bears responsibility</i> for customers.</li> <li>• <i>Motivation</i> is by job satisfaction and a greater sense of service (<b>intrinsic</b>), and less by money and promotion (<b>extrinsic</b>).</li> </ul>

Decentralization is a matter of fact. Fremap's central headquarters now employ only 2.7% of the company's total workforce, whereas before the change the figure was about 5%. According to Mr. Alvarez, this is the lowest proportion of centralized staff in the world in this industry. Fremap branches are small. This permits harmonious growth. When a branch becomes too large, it is split in two.

Not only is the resulting situation more satisfactory from a human and ethical perspective, but also from the point of view of business performance, in terms of employee motivation, quality, customer satisfaction, and profitability.

According to Mr. Alvarez, everybody can see that Fremap's employees are generally happier and more motivated than before. Employees who used to deal with just one aspect of the business now have a much broader remit. Their work has been enriched; they have gained independence and responsibility. Salary has become a secondary concern. According to one integral agent: "Even if they offered me 20% more money for doing the job I used to do, I wouldn't accept it."

It has to be admitted, however, that some employees were initially reluctant to change; they saw their new job as being more complex compared with the hyper-specialized tasks they had been performing up until then. Some supervisors believed that they would lose power as a result of the change. However, the change was implemented carefully, without lay-offs, and people were offered help in adapting to the new situation. The change was carried out at the right speed, avoiding traumas and finding new (mainly clerical) jobs inside the company for those who did not show the ability to become "integral agents." After a few years, acceptance of the change was almost total.

Quality has also improved. In 1996, Fremap obtained EN-ISO 9001:2000 certification, a well-known international standard for quality of service to companies and employees. In 2000, Fremap achieved EN-ISO 14001 certification for environmental protection. Since 2003, Fremap has adopted the EFQM model, which has enhanced certain aspects of its activities related to meeting the needs of all interest groups, customer orientation, leadership, employee development and involvement, innovation, ongoing improvements, and social responsibility. Fremap has been granted the European Seal of Excellence and, in 2001, the "Madrid Excelente" award.

Fremap customers are now better served and their satisfaction has increased. According to Mr. Alvarez, "We now have an open organization that makes direct contact with people who have suffered an accident and companies much easier. They are our customers. That way, we are able to solve problems more effectively and more personally. Customers appreciate this degree of closeness with our representative. Surveys say that what customers value most is proximity and having a single contact person to solve all their problems."

The scope of the company's activities and the company itself have grown substantially. Fremap is now active throughout Spain via its own assistance network, comprising 145 outpatient centers and 4 hospitals. This network is complemented by services provided under contract by nearly 600 health centers and specialists. Fremap provides work accident coverage for more than 3 million workers, of whom 1.8 million, some 60%, are also eligible for financial benefits in the event of temporary incapacity due to common sickness or non-occupational accidents. These benefits are also offered to 375,000 self-employed workers. In 2003, income from all categories was expected to reach some 1.85 billion euros.

Fremap currently has around 4,600 employees, some 60% of which have been hired since the change. The employees are younger than before, and 78% are university graduates. This growth has been aided by legal regulations that have allowed mutual companies to engage in business activities that previously were not permitted, such as assurance for sick people who have not suffered accidents.

According to Mr. Alvarez, “employees are not at all nostalgic for the old system. If we tried to go back to the previous situation, nobody would understand it. We ourselves would find it impossible. It would be ‘unnatural’.”

Fremap acts in keeping with principles of prudence, as is demonstrated by its reserves and provisions, as well as by the balance it maintains in its assets, in which investment security and liquidity are paramount. For that reason, Standard & Poor’s gave it an AA rating in 1997, which has been maintained in subsequent years. This rating, the only one granted to a mutual insurance company devoted to occupational accidents, is given in recognition of the company’s very solid capitalization. S&P added that “Fremap’s capital adequacy is expected to remain extremely strong, at the ‘AAA’ level according to Standard & Poor’s risk-based capital model, and the capital adequacy ratio is not expected to fall significantly below 300%. Operating performance is expected to remain very strong, with the combined ratio falling below its current level of 80% as the results of the non-work-related illnesses portfolio improve following an increase in tariffs.” “The ratings reflect Fremap’s extremely strong capitalization, very strong operating performance, strong business position, and very proactive management,” said S&P credit analyst Peter McClean. “These factors are offset by a rigid legislative framework that constrains further product diversification and limits the company’s earnings potential” (Anonymous 2003a).

This may seem to be a case of empowering people with good results; and yet, it entails much more than simply applying a technique. To understand the change at Fremap, it is crucial to pay attention to the philosophy behind it.

The motives for the changes were to improve quality and, at the same time, to effectively implement a culture that made persons central to the organization, which entails putting the principle of subsidiarity into practice. As Mr. Alvarez explained, “We decided to establish a new administrative organization based on the person and on quality. The purpose of this organization was to give material expression to our values: service, quality, ethics, personal development, etc. As a result, departments and functional divisions in the territorial branches were abolished, which meant doing away with internal ‘boundaries’ that were an obstacle to quality, and allowing job categories to merge.”

As an “integral agent” in the “new” Fremap, each employee develops her freedom by working autonomously, under her own initiative and responsibility. Employees are empowered, not as a result of applying a technique but as a result of a philosophy, as required by the principle of subsidiarity. Employees do whatever they are able to do, including proper training and support. If they are able to do something through their own efforts, their activity is not absorbed by any higher body.

Recently, Mr. Alvarez insisted that Fremap’s goal was “anthropological,” and added, “Persons are central, not only as a means of achieving quality, although product quality and human quality go hand in hand. Our goal has been focused on having trained and responsible people. By that I mean people who can best use their intellectual capabilities to make decisions. We give them support through appropriate technological tools” (Andreu, 2004).



## Conclusion

Throughout this paper we have explored the foundations and contents of the principle of subsidiarity, and attempted to show the similarities and differences between subsidiarity and the related managerial concept of empowerment. Whereas empowerment is oriented toward making the organization more efficient, subsidiarity focuses on fostering human flourishing within the organization. In practice, however, the two approaches converge in many ways.

In order to apply the principle of subsidiarity in organizations, the following suggestions have been made: develop a mentality based on the centrality of persons in production; apply the principle of subsidiarity with practical wisdom, taking the particular situation into account; give employees responsibility, but also give them the necessary support; maintain the organization's goals and unity; and build a culture in which persons are not only respected but also are required to assume responsibility and accountability for whatever they are able to do on their own initiative.

These recommendations should be related consistently with others derived from practical psychology and managerial experience. Thus, Forrester (2000) recommends implementing empowerment, enlarging power, being sure what one can do, differentiating among employees, supporting power shares, building fitting systems, and focusing on results. Effective integration of psychological and ethical perspectives should be the subject of further research.

The experience of the medium-sized firm Fremap illustrates a practical way of making the principle of subsidiarity operative in a particular situation. Fremap CEO Mr. Alvarez is familiar with Catholic social tradition (CST). He has recognized that the principles of CST have helped him deal with the business world, taking both sides into account: the economic and the humanistic (Alvarez, 2003, p. 13). In his view, business must consider both "economic value" and "human value," and businesses must organize work to achieve efficiency in such a way that it is compatible with human development (2003, p. 12). This vision is reflected in Fremap's corporate culture, in which, according to its CEO, "the person—employee and customer—has acquired great prominence in a managerial context which could rightly be called humanistic" (1996, p. 178).

The case presented here prompts the following observation. The role of top managers in giving practical application to the principle of subsidiarity is crucial: their conception of the person; how they encourage initiative and entrepreneurial spirit; how they give appropriate training and support, including computer and other technical means; and how they maintain the necessary unity and sense of commitment and cooperation within the organization<sup>6</sup>.

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