

The Economic and Financial Crisis and the Human Person

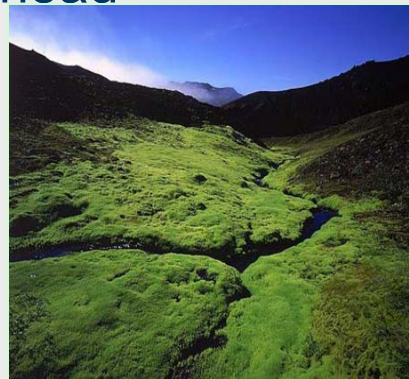
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Towards a New Theory of the Firm: The Collaborative Enterprise



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- Collaborative Models of Governance: Alternative Practices
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Critiques of the Competitive Model (1)

- After around thirty years of dominance (Friedman, 1970; Porter, 1979; Rappaport, 1986), the still prevailing mainstream competitive model, characterized by a narrow focus on monetary results, short-termism and a disruptive approach which benefits few (especially financial investors and top managers) at the expense of many (including society as a whole, local communities, ecosystems and ecosystem services, and future generations: Zsolnai, 2009), is under attack
- This challenges the academia. The mainstream theory of the firm propagates a negativistic view of human nature, where agents are always self-interested and want to maximize their own profit or utility without caring about others. This generates vicious circles in which agents expect the worst from others and act accordingly (Birkinshaw and Piramal, 2005; Ghoshal, 2005)

Critiques of the Competitive Model (2)

- [Sumantra Ghoshal](#) heavily criticized the current management **mainstream**, including competitive strategy by [Michael Porter](#)
- “If companies exist only because of market imperfections, then it stands to reason that they would prosper by making markets as imperfect as possible. This is precisely the foundation of Porter’s theory of strategy...” (Birkinshaw and Piramal, 2005: p. 15)
- The prevailing competitive model requires a fundamental correction to enable companies to develop really sustainable and responsible ways of doing business

The Big Idea

Capitalism is under siege.... Diminished to set policies that sap economic growth.... The purpose of the corporation must be

trust in business is causing political leaders
Business is caught in a vicious circle.... redefined around

CREATING SHARED VALUE

How to reinvent capitalism—and unleash a wave of innovation and growth *by Michael E. Porter and Mark R. Kramer*



Critiques of the Competitive Model (3)

- The Group of Lisbon, established in December 1991 and chaired by Riccardo Petrella, issued its breakthrough report [Limits to Competition](#) in 1994
- The word **compete** originally meant to **seek together**, but, as a cause/effect of the globalization processes, it has currently taken on controversial dimensions. Nevertheless, **competition is a successful catchphrase**, whose implementation results in broadly negative impacts
- **Competition cannot tackle the challenges generated by an unleashed globalization**, enabled by privatization, deregulation and liberalization
- Competition, which could be a very useful tool, has become the only purpose of our socio-economic systems in a **Darwinian struggle for life**
- **A cooperative and collaborative approach**, which goes beyond competition, **is needed**

Collaborative Models of Governance: Alternative Practices (1)

- Coop is the largest Italian retail chain, with:
 - a 18.4% market share in the grocery market
 - 7,715,429 members grouped in 114 territorial consumers' cooperative societies
 - 1,468 points of sale and 1,791,562 square meters
 - 56,774 employees
 - a 2011 turnover of 13,197 million Euros
- Coop has built and maintains a distinctive positioning on the market thanks to its true and **genuine commitment to sustainability**. To pursue this goal, the Coop system has developed a broad set of initiatives:
 - New performance management and reporting tools - The Social Balance/Report
 - SA8000 - Collaboration along the entire supply network for the ethical sourcing
 - Private label - A successful experience to foster sustainable patterns of production and consumption
 - Investing in the local communities – The Coop system as an engine of development



Collaborative Models of Governance: Alternative Practices (2)

- The illycaffè case (Perrini and Russo, 2008):



- The family-owned company located in Trieste sells a unique single blend of premium-quality coffee worldwide
- This top-quality blend, at the basis of the growth and competitive success of the Group, is deeply rooted in **strong collaborative relationships with farmers** in South and Central America, India, and Africa
- illycaffè and the local suppliers develop long-term, mutually beneficial relationships and build robust partnerships according to a virtuous cycle of sustainability based on four principles:
 - ✓ Sustainable development and quality – an inseparable pair
 - ✓ 100 percent of illy coffee is purchased directly from local producers
 - ✓ Quality as a tool for improving the living conditions of farmers over time
 - ✓ Fair price (Arabica coffee beans paid about 30-35% more than the market price)

Collaborative Models of Governance: Alternative Practices (3)

- Slow Food defends and promotes good, clean and fair food. Its philosophy is based on three principles: The small, the local, and the slow (Slow Food International, 2011; Tasch, 2008)
- One of the most important projects carried on by Slow Food is Mercati della Terra, an initiative aimed at promoting markets of local producers in Italy and all over the world
- The project intends to build short supply chains of seasonal, territorial, and high-quality products thanks to the joint efforts of local producers, local enterprises, local communities, and municipalities
- The purposes of these efforts are the following:
 - Valuing typical traditions
 - Shaping new connections and social networks among producers and co-producers
 - Bypassing brokers
 - Reducing transports
 - Safeguarding the environment



Collaborative Models of Governance: Alternative Practices (4)

- Values-driven companies participating in the [Social Venture Network](#) in the USA are other advanced examples of collaborative ways of doing business (Cohen and Warwick, 2006; Tencati, 2011):



EILEEN
FISHER

- [Eileen Fisher](#), a well-known women's clothing producer, adheres to SA8000 and all the factories that produce for this firm are required to adopt SA8000 and demonstrate continual improvement in the protection of workers' rights. Local producers are not alone in this compliance process: Training is provided to factory managers and workers
- [Pura Vida Create Good](#), the premier sustainable beverage company. The mission of Pura Vida is to "Create Good". By purchasing and selling only 100% Fair Trade, organic, shade-grown coffee, Pura Vida ensures that farmers in America, Africa, and Asia receive a fair wage and can support their families, and that the natural habitat they live in is preserved. Through its charity-the Create Good Foundation-, Pura Vida operates programs for helping the communities in areas where its coffee is grown





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The Benefits of Collaboration

- [Robert Frank](#)'s book [What Price the Moral High Ground?](#) represents a real breakthrough in business ethics literature (Frank, 2004)
- Frank challenges the central view that competitive pressure makes naïve to expect that people (and organizations) restrain themselves for the common good. Both on empirical and theoretical results Frank shows the **emergence of pro-social behavior even in highly competitive environments**
- **People who are intrinsically motivated to adhere to ethical norms often prosper in competitive environments.** Socially responsible organizations are rewarded for the higher cost of caring:
 - Opportunistic behavior can be avoided between owners and managers
 - Getting moral satisfaction employees are ready to work more for less salary
 - High quality new employees can be recruited
 - Customers' loyalty can be gained
 - The trust of sub-contactors can be gained

Further Elements for a New Theory of the Firm

- **Positive psychology** (Seligman, 2002, 2011; Seligman *et al.*, 2004) and the emergence of the **Homo reciprocans** (Bowles *et al.*, 1997)
- Recent developments in **evolutionary biology**, which confirm the crucial importance of the attitude to collaboration (Morris, 2012; Wilson, 2005)
- **Commons and collaboration**: Beyond market and hierarchy thanks to a polycentric approach rooted in community-based collaborative governance efforts (Ostrom, 1990; Nagendra and Ostrom, 2012)

The Collaborative Approach (1)

- The strength and sustainability of enterprises come from their ability to fit into the environmental, social and cultural context in which they operate
- By developing mutually beneficial relationships with the stakeholders enterprises can get deep support from the stakeholders based on their commitment
- This may lead to a superior performance from a multiple bottom line perspective (Perrini and Tencati, 2006; [Tencati and Zsolnai, 2009](#))
- Collaborative enterprises value and develop relationships with their stakeholders and try to generate long-lasting win-win solutions

The Collaborative Approach (2)

- The collaborative enterprise can develop over time because of its capability of building and maintaining sustainable and durable relationships with the members of its stakeholder network.

The sustainability of the company depends on the sustainability of its stakeholder relationships

- This **extended relational view of the firm** goes beyond the traditional approach that involves value-chain partners and competitors (Dyer and Singh, 1998; Post, Preston, and Sachs, 2002). It **encompasses not only relationships with other firms, but also with other stakeholder groups** (e.g., governments and civil society)

- The competitiveness/competition notion and the related concept of shareholder value are **insufficient** and **self-defeating**: A more comprehensive and fitting view of the firm is needed

- The really good companies are beyond competition by serving the multiple needs of their stakeholders

The Main Features of the Collaborative Enterprise

Competitiveness vs. Collaboration

	The Competitive Model	The Collaborative Model
Basic Motive	Self-interest	Care about others and themselves
Main Goal	Maximizing profit or shareholder value	Creating values for all the participants in the network
Criterion of Success	Growth in money terms	Mutually beneficial relationships with the stakeholders

Source: [Tencati and Zsolnai \(2012\)](#)

The Future Ahead

- This contribution is a very first step in a research path that should aim at **reframing the current and prevailing assumptions in economics and business practices**
- The collaborative approach opens new research avenues at different levels (Tencati and Zsolnai, 2013):
 - Individual (**individual level**)
 - Firm (**micro level**)
 - Districts, clusters, industries, and sectors (**meso level**)
 - The economy as a whole (**macro level**)

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