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Laszlo Zsolnai
Business Ethics Center
Corvinus University of Budapest
and
Judge Business School
University of Cambridge

Ethics, Competitiveness and the Sustainability of Companies*

The paper addresses the problem of the relationship between corporate social responsibility (CSR) and competitiveness of companies. It argues that an exclusive focus on competitiveness is self-defeating. It also shows that the opportunistic use of CSR might be counter-productive. Evidences are presented that ethical behavior can survive in highly competitive markets, which provides new meaning of competitiveness. The paper describes how a number of progressive, socially responsible firms have prospered in competitive environments by forming commitments among owners, managers and employees and by establishing trust relationships with customers and subcontractors. Durable and mutually beneficial of relationships with all the stakeholders are the key of the sustainability of companies. The really good companies are beyond competition by serving the multiple needs of their stakeholders.

Keywords: corporate social responsibility, competitiveness, sustainability, stakeholder relationships, collaboration

1. Critique of the Competitiveness Ideology

Competitiveness is the prevailing ideology of today's business and economic policy. Companies, regions, and national economies seek to improve their productivity and try to gain competitive advantage. But these efforts often produce negative effects on various stakeholders at home and abroad. Competitiveness involves self-interest and aggressivity and produces monetary results at the expense of nature, society and future generations.

Based on the arguments developed by the late London Business School professor Sumantra Ghoshal, and the Group of Lisbon, chaired by Riccardo Petrella, the paper criticizes the one-dimensional pursuit of competitiveness of contemporary business. I will show that the exclusive focus on monetary results (especially short-term shareholder value) is detrimental for business itself. (Tencati, A. and Zsolnai, L. 2009)

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A world-renowned London Business School professor, the late *Sumantra Ghoshal*, heavily criticized the current management ideology, including *competitive strategy* propagated 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 that focuses on how companies can build market power, i.e., imperfections, by developing power over their customers and suppliers, by creating barriers to entry and substitution, and by managing the interactions with their competitors. It is a market power that allows a company to appropriate value for itself and prevent others from doing so. The purpose of strategy is to enhance this value-appropriating power of a company (Ghoshal, 2005: 15).

Some diminishing components of social welfare is not just a coincidental byproduct of Porter-style competitive strategy. Within the current management framework there is no escape from the conflict between economic goals and their social and moral implications (Ghoshal, 2005: 15).

Economic efficiency has become the greatest source of social legitimacy for business in today's world. The focus on efficiency allows economics to neatly sidestep the moral questions on what goals and whose interests any particular efficiency serves. Ghoshal refers to Nobel-laureate institutional economist *Douglas North*, who clearly demonstrated that in reality there is no absolute definition of efficiency.

What is efficient depends on the initial distribution of rights and obligations. If that distribution changes then a different efficient solution emerges. As long as the transaction costs are positive and large, there is no way to define an efficient solution with any real meaning. And North argues that the transaction costs are not only positive and large but they are growing in our economically advanced societies (Ghoshal, 2005: 24).

In his latest works Porter tries to address the emerging issue of CSR (Porter & Kramer, 2002, 2006), but Ghoshal's arguments are still well-grounded. In Porter and Kramer's contributions corporate social responsibility seems to be only an add-on element in the traditional framework. In fact, it is not related to a genuine moral commitment of the company or a deep change in the perspective of analysis and in the rules of the game. CSR is only considered an additional instrument to achieve a better competitive performance: "Not every company can build its entire value proposition around social issues…, but adding a social dimension to the value proposition offers a new frontier in competitive positioning" (Porter & Kramer, 2006: 91).

Competitiveness is a self-serving ideology employed by mainstream business to pursue its profit at the expense of nature, society and future generations. This ideology requires a fundamental correction to enable companies to develop sustainable and responsible ways of doing business.

This point is addressed by the *Group of Lisbon*, chaired by *Riccardo Petrella*. In their "Limits to Competition" they develop a strong, well-documented and clear criticism of the competition ideology dominant in the post-Cold-War world. In the 1990s competition

became the main goal not only of companies, but also of regions, nations, municipalities, public institutions and so on. (The Group of Lisbon, 1994)

The word compete originally meant "to seek together" (from the Latin *cum petere*), 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 and a value for itself: Its pursuit justifies every political choice, even if it implies stronger and stronger cuts in the employment rates, social welfare, and expenditures for the protection of the environment. This new credo undermines the bases of social cohesion in both the developed and the developing countries.

Competition could be a very useful tool if it supported and fostered broad and shared innovation and emulation processes. But when the only purpose is to engage in a Darwinian "struggle for life" on a global scale, it results in a disruptive global war among companies, affecting also the overall well-being of cities, regions and nations.

Therefore, competition is not the answer to our needs for a sustainable pattern of development. This new world order should be based on four social contracts, which are in the general interest of the largest number of people and nations, and especially of the poorest human beings. In more detail, these *contracts for change* promote a common effort aimed at fulfilling the basic needs and expectations of the eight billion people who will live on Earth by the year 2020. The objectives of these global social contracts are as follows:

i. Removing the inequalities by providing 2 billion people with water, 1.5 billion people with a home, and 4 billion people with efficient energy.

ii. Ensuring tolerance and dialogue among the different cultures.

iii. Starting a process towards a real world government by establishing a World Assembly of Citizens.

iv. Fostering and speeding up the implementation of Agenda 21, in particular by promoting private-public partnerships especially at the local level.

The main drivers of these global contracts should be the world civil society, encompassing NGOs, unions, associations and so on; the enlightened elites, encompassing leaders from business, academia, governments, politics, media and foundations; the local communities, more and more embedded in the global networks.

2. Opportunistic CSR might be counter-productive

Luk Bouckaert's criticism on the "Green Paper of the European Commission Promoting a European Framework for Corporate Social Responsibility" is relevant here. The Green Paper published in 2001 and its follow-up consultation process, put business ethics and corporate social responsibility (CSR) on the political agenda in Europe. It gives a regulative, political framework for an ethically driven economy, which goes beyond the logic of the social market economy. Though the dynamics of the social market economy

rested on a clear separation between economic and social institutions operating in national boundaries, the new regulative structure is built on voluntary partnerships among business, government and civil society. (Bouckaert, L. 2002)

The Green Paper defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” This definition contains the credo of business ethics, which can be summarized in three points: (i) the need to integrate the economic, social and environmental impact in all business operations to create sustainable economic growth, (ii) a focus on stakeholder management and manager's accountability to all the stakeholders, and (iii) a commitment to go over and above explicit legal requirements to respect the implicit social contract between business and society so that the firm’s “license to operate” goes with social responsibility to create sustainable value for all its stakeholders.

Many business leaders, policymakers and other stakeholders agree today on this definition of CSR because it is the expression of a long-term rational management perspective. It is a necessary condition to remaining a trustworthy company for investors, for highly skilled and competent employees, for potential partners in a joint venture and so on. It is part of good reputation and communication. So CSR has a rational and instrumental function in a set of accepted goals and objectives. The only remaining question is how to make it operational. A list of actions is proposed in the paper and in the follow-up documents, of which the most important may be the launching of a “Multi-stakeholder Forum” at the EU level. This forum has the aim of promoting transparency and convergence of all CSR practices and tools (ethical codes, audit systems, labels, participation schemes, etc.). Another important step is the integration of CSR into the other policies of the EU such as trade, development agreements, public procurement policies, public administration and so on.

By reducing ethics to a functional and instrumental management concept we lose something vital – argues Bouckaert. We are crowding out genuine moral feelings and genuine moral commitment, substituting them for rational and technocratic management tools. This substitution fails. Although business ethics took off in the late 1970s and has flourished for decades, ethics management has failed in recent times to overcome the new, more sophisticated and hidden forms of opportunism in business. It is important to understand the nature and limits of ethics management to prevent new irruptions of irresponsibility. We must be aware of the unavoidable paradox of ethics management.

The core idea of this paradox is the following: By creating new regulations to temper opportunistic behavior in and among organizations, we may temper the symptoms but often reinforce the underlying roots of opportunism. We introduce economic incentives like benefits, such as premiums or tax relief for those who respect the new regulations, but by doing this, we substitute economic calculations for moral feelings. Preaching moral concepts such as trust, responsibility or democracy based on calculative self-interest or as conditions of systemic functionality is ambiguous. It opens the door for suspicion and distrust because calculations and systemic conditions can easily be manipulated. When the fox preaches, guard your geese.

It is fascinating to see how trust, value-driven leadership and democratic stakeholding have become part of Western management theory. Bouckaert’s point is that the more

economic democracy can be sustained by a rational and economic discourse, the more it risks crowding out the spiritual and moral commitment, which is a necessary condition for sustaining genuine entrepreneurship and stakeholding. We must put forward not only the question of how to make business ethics operational, but also the question of how to make it genuinely ethical. (Bouckaert, L. 2002)

To promote corporate social responsibility on the basis of the pure economic logic of the market and to use it solely as an instrument for improving economic competitiveness is not a sufficient strategy to address the unsustainable and irresponsible growth strategies of today's business. (Zsolnai, L. 2003)

3. The Benefits of Socially Responsible Behavior

Robert Frank's book "What Price the Moral High Ground?" represents a real breakthrough in business ethics literature because it treats ethics as an endogenous factor in economic life. (Frank, R. 2004) Moral considerations are not externally forced upon economic agents but internally chosen (or not chosen) by them. Frank challenges the central view of our era that competitive pressure makes naïve to expect that people (and organizations) restrain themselves for the common good. Both economic theory and evolutionary theory suggest that human agents are willing to make sacrifices for the common good only if society confront them with significant penalties. Both on empirical and theoretical results Frank shows the emergence of pro-social behavior independently of external rewards and sanctions.

One of the main arguments developed by Frank is that people who are intrinsically motivated to adhere to ethical norms often prosper in competitive environments. It is a paradoxical phenomenon that people can often promote their own narrow ends more effectively by abandoning the direct pursuit of self-interest.

According to Frank there is a closer link between rationality and morality than many economists believe. A rational individual will often be unlikely to achieve his or her material ends if the moral emotions are missing from his or her character. An interesting corollary is that the ultimate victims of opportunistic behavior are often those people who practice it.

Frank also shows that socially responsible firms can survive in competitive environment because social responsibility can bring substantial benefits for firms. So it might be a good business to sacrifice in the name of ethical concerns. Frank developed five distinct types of cases when socially responsible organizations are rewarded for the higher cost of caring. (Frank, R. 2004: p. 67)

(I) Opportunistic behavior can be avoided between owners and managers.

(II) Getting moral satisfaction employees are ready to work more for less salary.

(III) High quality new employees can be recruited.

(IV) Customers' loyalty can be gained.

(V) The trust of sub-contractors can be established.

Caring organizations are rewarded for the higher costs of their social responsible behavior by their ability to form commitments among owners, managers and employees and to establish trust relationships with customers and sub-contractors. *Ernst Fehr* and *Simon Gaechter* were able to demonstrate experimentally the virtuous circle between responsible behavior and positive stakeholder response. (Fehr, E. and Gaechter, S. 2000)

They designed a gift exchange game in which employer makes a wage offer with a stipulated desired level of effort from the worker. The worker may then choose an effort level, with costs to his or her rising in effort. The employer may fine the worker if his or her effort level is thought to be inadequate. The surplus from the interaction is the employer's profits and the worker's wage minus the cost of effort (and the fine, where applicable).

Self-regarding worker would choose the minimum feasible level of effort, and, anticipating this, the self-regarding employer would offer the minimum wage. But experimental subjects did not conform to this expectation. Employers made generous offers and workers' effort levels were strongly conditioned on these offers. High wages were reciprocated by high levels of efforts.

4. Genuine Moral Commitments

The chance to improve the ethical quality of economic activities can be taken if the motivation of the agents is genuinely ethical; that is, if they want to realize ethical conduct for its own sake. Ethics could bring material benefits only for those individuals and companies who use it not to produce material gains.

Progressive companies like outdoor clothing company Patagonia, retail business firm Ishka, natural health care company Blackmores, skin care specialist Jurlique, and organic food company Whole Foods are good illustrations of doing successful business based on genuine moral commitments. (Pozzi, D. 2006, Nocera, J. 2006)

Patagonia is an outdoor clothing company started by a group of climbers and surfers in the sixties. The company branched, from selling climbing equipment into clothing in the 1970s. Company founder Yvon Chouinard's vision of long-term sustainability and minimum impact on the environment has become a reality for Patagonia and its customers. This has been realized through producing quality clothing that outlasts fashion, and a business ethic, which values the environment and its employees over rapid growth and the bottom line.

Patagonia shows a strong commitment to the environment, donating a large percentage of the company's profits to environmental campaigns and an ongoing accountability to the environment, demonstrated by constant monitoring of the effects of its manufacturing. In 1996 the company shifted its entire cotton line to organically grown cotton: grown without the use of chemical pesticides, herbicides or defoliants. They say: "Given what we now know about conventional cotton, there is no going back regardless of the decision's impact on the company's sales or profit. It's an ethical choice we have made and hope other companies will follow."

Acknowledging the impossibility of zero environmental impact, Patagonia also has a strong commitment to research into producing durable fabrics. They are at the forefront of technology, having been the first to introduce such fabrics as Capilene in 1985, Polyester fleece in 1977 and Post Consumer Recycled Polyester fleece in 1993. Durable fabrics, coupled with durable and versatile designs, ensures that Patagonia's customers mirror the company's own philosophy of reduced consumption.

Nor does the company compromise on the care for its employees. Heavily subsidized in-house and external child-care programs, available to women and men, a commitment to employee training and pleasant working facilities are deemed important to simultaneously provide for the employees and to retain valuable people for the business.

The company’s broad vision considers how Patagonia impacts on the environment, its employees and the community at large. The simplicity is their philosophy. They believe that “Going back to a simpler life based on living by sufficiency rather than excess is not a step backward. Rather, returning to a simpler way allows us to regain our dignity, puts us in touch with the land, and makes us value human contact again”. A retail business that takes its business ethics seriously is Ishka: the chain of handcraft shops founded by Michael Sklovsky and which has been operating successfully for 25 years. His business follows Buddhist philosophy in which ethics play an important part.

Most of Ishka's products are manufactured in villages across 48 countries, including India, Thailand, Nepal and Indonesia. In villages greatly needed income is generated through Ishka buying locally crafted products. The purchasing of local handcrafts provides work for people in their own village.

Exporting arts and crafts is a way that families can break out of the poverty cycle. To become a crafts-person or artist can mean a well-paid profession for life. Ishka have direct dealings with most of the artisans from whom they purchase handcrafts. The company investigates the workshops of suppliers and examines the working conditions of the artisans. Moreover, Ishka ensure they do not deal in products of exploitation such as the popular 'Persian' rugs copied in Pakistan by children in slavery.

Another important ethical issue considered by Ishka is the use of environmental resources. Wherever possible, Ishka make use of recycled products; and the company is always aware of the need to preserve natural habitats. Ishka are also regularly involved with Amnesty International and Unicef, and have been acknowledged as Unicef's biggest Victorian fundraiser.

Natural health care company Blackmores extends its vision of drug free health care to encompass a more widespread respect for nature and the environment. Environmentalism has been a distictive feature of Blackmore's corporate philosophy as evidenced by its environmental committee. This committee enforces Blackmore's environmental policy, which is about “more than just recycling and pollution control; it means integrity, quality and pride, not only in the way the company's products are manufactured, but with everything with which the company is associated”.

Blackmores is proud that its products are manufactured without causing suffering to animals, and that it features among the 'cruelty-free' list of beauty products promoted by

animal welfare groups, proving that cosmetic safety can be achieved without the use of testing on animals.

Adelaide-based skin care specialist, Jurlique, has successfully integrated spirituality into its corporate philosophy. Built around the three principles of 'purity, care and integrity', the organization believes that incorporating these values into all aspects of the production process enhances the final product, and the well being of the company and its staff.

'Purity' is observed in Jurlique's practice of organically growing, at their Jurlique Herb Farm, 85% of the herbs the company requires. The company ensures that only natural, non-chemical, unpolluted, organically and bio-dynamically grown raw materials are used in its products. Care for the environment, for oneself and others forms the Jurlique philosophy. Staff are encouraged to embrace change, energize others, and break down barriers, and to be customer focused, responsible and accountable, to strive for excellence and to face reality.

Co-founder of Jurlique, Dr Jürgen Klein considers consumer education vital in helping the public to be aware of the processes involved in “natural cosmetics”. In line with this view, Jurlique offers open days at the farm and factory, cosmetic ingredient listings, education and seminars covering skin and health care, aromatherapy and herbal medicines.

American organic food company, Whole Foods is characterized with rapid expansion, double-digit growth and a business model that no competitor seems able to touch. Its stock has returned more than 2,700 percent since it went public in 1992. Wall Street analysts could not speak enough good things about Whole Foods. John Mackey, the co-founder of Whole Foods and his executive team make no bones about the fact that shareholders rank low on their list of priorities. They speak instead about the importance of keeping customers happy and employees engaged and sticking to the company’s core values. Mackey says that they consciously work for the common good rather than depending solely on the ‘invisible hand’ of the market to generate positive results for the society.

The experience of these non-mainstream companies indicates the viability of business functioning based on genuine commitments to ethics and ecological sustainability. It does not imply that mainstream companies can replicate these strategies. Mainstream organizational structures and forms should be changed to get closer to ethical and sustainable corporate functioning.

5. Beyond Competition

The strength and sustainability of enterprises come from their ability to fit within the environmental, social and cultural context in which they function. By developing mutually beneficial relationships with the stakeholders, enterprises can get deep support from the stakeholders based on their commitment. This may lead to superior performance from a multiple-bottom-line perspective. (Tencati, A. and Zsolnai, L. 2009)

The *ethics* of *relationality* provides the underlying background for the collaborative strategy. Yale University ethicist *Richard Niebuhr* developed a theory of relational

ethics as an alternative to goal-oriented (teleological) and law-oriented (deontological) ethical theories.

The ethics of relationality implies the *fitting act*, the "one that fits into a total interaction as response and as anticipation of further response, is alone conducive to the good and alone is right." The fitting is "the suitable, the correspondent, the consentaneous, the congruous, the meet." It means, therefore, a sensitivity and responsiveness. It is a relational term that functions in the midst of complex interaction, an ethos that expresses an adequacy of relating. The fitting is a sensitive relating to a whole within which we are participating and to which we are creatively contributing (Keiser, 1996: pp. 82-83).

Collaborative enterprises value and develop relationships with their stakeholders and try to generate long-lasting "win-win" solutions. In this perspective, the entire set of stakeholder relationships becomes strategic. The collaborative enterprise can develop over time because of its capability of building and maintaining durable relationships with the members of its stakeholder network. The sustainability of the company depends on the sustainability of its stakeholder relationships (Tencati & Perrini, 2006).

We must recognize that the quality of stakeholder relationships is crucial for the long-term development of a company. The capacity to generate and distribute sustainable values over time is linked to strong and synergetic relationships with the stakeholders. A collaborative and sustainability-oriented company looks beyond mere financial performance and develops a multiple-bottom-line approach by addressing the linkages with its different constituencies. The difference between this approach and the more traditional stakeholder approach is the strong emphasize on the intrinsic value of stakeholder relationships based on mutual respect and trust.

In order to face the challenge of *global* and *local sustainability* the competitiveness notion and the related concept of shareholder value are insufficient and self-defeating. A more comprehensive and fitting view of the company and its role in society is needed.

In European literature Pushkin's *Onegin* is one of the most famous poem. Tatiana is a young noble lady who is so attached to Onegin, the impressive young man that there is no competing alternative for her. Onegin is beyond competition because he fits in perfectly with Tatiana's needs.

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

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