

# Chapter 1

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## **The Collaborative Enterprise Framework**

This chapter aims to explore collaborative ways of doing business where enterprises seek to build long-term, mutually beneficial relationships with all stakeholders and want to produce sustainable values for their whole business ecosystems.

Based on the arguments developed by the Group of Lisbon, chaired by Riccardo Petrella, and the late London Business School professor Sumantra Ghoshal, we criticize the one-dimensional pursuit of competitiveness of contemporary business. We think that the exclusive focus on monetary results (especially short-term shareholder value) is detrimental for nature, society and future generations, and finally for business itself.

The strength and sustainability of enterprises come from their ability to fit into the environmental, social and cultural context in which they function. By creating values for all stakeholders, enterprises can involve them and gain deep support based on their commitment. This may lead to superior performance from a multiple bottom line perspective.

*Competitiveness* is the prevailing ideology of today's business and economic policy. Companies, regions, and national economies seek to improve their productivity and 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. We are arguing for a more *collaborative strategy* where business tries to balance environmental, social and monetary values in innovative ways and makes positive contributions to all stakeholders.

## **Critiques of the Competitiveness Ideology**

### *Sumantra Ghoshal's Approach*

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 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, p. 15).

Some diminishing components of social welfare are 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, p. 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, p. 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, p. 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.

#### *The Group of Lisbon's Approach*

This is exactly the point addressed by the *Group of Lisbon*, chaired by *Riccardo Petrella*. Established in December 1991, the Group started to work in 1992 and in 1994 issued its breakthrough report, "Limits to competition," supported by the Gulbenkian Foundation in Lisbon. Then the report was published by MIT Press in October 1995. The Group was composed of nineteen distinguished persons from business, academies, governments/public institutions and NGOs in Europe, North America and Japan (The Group of Lisbon, 1994).

The report develops 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 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 most developed and the developing countries.

Furthermore, competition cannot tackle the challenges generated by an unleashed globalization enabled by privatization, deregulation and liberalization (on these issues, see also Worldwatch Institute, 2006):

- the growing poverty and socioeconomic inequalities within and between nations;
- the delinking process between the richest and the poorest people/countries;
- the rise of an international criminal economy;
- the declining role of the state as a founding political institution and the absence of a real and effective political democracy at the global level;
- the increasing pressure on and the misuse/overexploitation and pollution of global environmental commons such as water, air and land;
- the depletion of biodiversity and natural resources;
- the loss of human values, such as peace, justice, dignity, solidarity and respect, in our societies.

Competition could be a very useful tool if it supported and fostered broad and shared innovation and emulation processes. But when the only purpose of our socioeconomic systems is to engage in a Darwinian “struggle for life” on a global scale, it results in a

disruptive and meaningless global war among companies, affecting also the overall well-being of regions, nations and cities.

Therefore, hegemony does not work and competition is not the answer to our needs for a sustainable pattern of development. Instead of a financial globalization carried on by firms and economic interests focused on short-term gains, a *cooperative approach* is requested to provide a new, effective and efficient way of global governance.

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.

However, it is the first duty of the member countries of the Triad (Europe, North America and Japan) to redirect their scientific and technological knowledge and their

efforts and use their financial resources to reconcile and integrate economic efficiency, social justice, environmental sustainability, cultural diversity and political democracy, instead of using them for their own interests and for their struggle for world supremacy.

Thus, a collaborative approach, which goes far beyond competition, is needed for a sustainable and humane development, in which the citizen is at the center of decision-making processes, even and especially within firms.

Some initiatives, such as the Global Water Contract and the Water Manifesto signed in Lisbon in 1998 (Petrella, Lembo, 2006) and the Millennium Development Goals adopted by the General Assembly of United Nations in 2000 and renewed in 2005 (United Nations Department of Economic and Social Affairs, 2006), made the great impact that the report “Limits to competition” had on the international debate evident. In particular, the report had a great influence on the UN system and also on the world civil society through the World and Local Social Forums.

### **The Benefits of Collaboration with the Stakeholders**

*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, 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 it 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 confronts them with significant penalties for doing otherwise. Based on both empirical and theoretical results Frank shows the emergence of prosocial behavior independent of external rewards and sanctions.

One of the main arguments Frank develops 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 fail 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 environments because social responsibility can bring substantial benefits for firms. So it might be good business to sacrifice in the name of ethical concerns.

Frank introduces five distinct types of cases where socially responsible organizations are rewarded for the higher cost of caring (Frank, 2004, p. 67):

- i. Opportunistic behavior can be avoided between owners and managers.
- ii. Moral satisfaction induces employees to work more for lower salaries.
- iii. High quality new employees can be recruited.
- iv. Customers' loyalty can be gained.
- v. The trust of subcontractors can be established.

Caring organizations are rewarded for the higher costs of their socially responsible behavior by their ability to form commitments among owners, managers and employees and to establish trust relationships with customers and subcontractors.

*Ernst Fehr* and *Simon Gaechter* were able to demonstrate experimentally the virtuous circle between responsible behavior and positive stakeholder response (Fehr, Gaechter, 2000).

They designed a gift-exchange game in which the 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 associated with his or her increase 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).

A 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 effort.

### **The Collaborative Approach**

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.

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.

Niebuhr rejects the Cartesian beginning with an isolated self and starts with the statement that the self is relational, exists in triadic relation to itself, society, and nature (Keiser, 1996, pp. 68-69). For Niebuhr the central question of ethics is not "What is my goal, ideal, or telos?" or "What is the law and what is the first law of my life?" but "What is fitting?"

The ethics of relationality implies that 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. Within 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 sustainable and durable relationships with the members of its stakeholder network. Thus, the sustainability of the company depends on the sustainability of its stakeholder relationships (Tencati, Perrini, 2006).

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

For example, social capital is the basis of the long-term success of many Italian districts (Lipparini, 2002): positive financial and competitive performance derives from giving strong attention to social relationships and effective environmental management. More specifically, the ceramic-tile district of Modena/Reggio Emilia in Northern Italy is a leader in the global market and a pioneer in the sustainability-oriented policies: innovative relationships among local players (enterprises, municipalities, regional government, local agencies and civil society) have been developed during the last decades in order to reduce the overall impact on the environment and make business operations more sustainable through material and energy recovery interventions and shared managerial improvements according to an industrial ecology perspective. These collaborative efforts are at the core of the value proposition delivered on the market by the entire industry (Tencati, 2006).

We must recognize that the quality of stakeholder relationships is crucial for the long-term development of a firm. The capacity of an enterprise to generate and distribute sustainable values over time is linked to strong and synergetic relationships with its stakeholders: a collaborative and sustainability-oriented enterprise looks beyond mere

financial performance and develops a multiple bottom line approach by addressing the linkages with its different constituencies.

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

### **Concluding Remark**

Everybody knows the story of Tatiana from Pushkin's famous poem *Onegin*. Tatiana is a young noble lady so attached to Onegin 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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