

The Collaborative Enterprise

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ABSTRACT. Instead of the currently prevailing competitive model, a more *collaborative strategy* is needed to address the concerns related to the unsustainability of today's business. This article aims to explore collaborative approaches where enterprises seek to build long-term, mutually beneficial relationships with all stakeholders and want to produce sustainable values for their whole business ecosystem. Cases here analyzed demonstrate that alternative ways of doing business are possible. These enterprises share more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance – which goes beyond the narrow concept of financial bottom line and into a stronger and systematic care of the needs and requirements of the different stakeholder groups. Thanks to this evidence and different theoretical and empirical contributions, we suggest that the strength and sustainability of enterprises come from their ability to fit into the environmental, social, and cultural context in which they operate. 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.

KEY WORDS: collaborative enterprise, competitive model, corporate governance, shareholder value, stakeholder engagement, sustainable values

Introduction

This article 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 ecosystem.

We think that the exclusive focus on monetary results (especially short-term shareholder value) of the currently prevailing competitive model 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 (Perrini and Tencati, 2006).

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.

To develop this proposal the article is organized in the following manner. First, we try to demonstrate that the attempt of reconciling the concept of competitiveness and the notion of corporate social responsibility is not sufficient and not effective. New paradigms are necessary to address the concerns generated by the unsustainable patterns of today's business.

Then, based on the arguments developed by the late London Business School professor Sumantra Ghoshal, we criticize the current managerial mainstream based on competition and shareholder value maximization. Furthermore, to demonstrate that alternative approaches to doing business and to management are feasible we present some cases of companies able to pursue economic, social, and environmental goals in a synergetic way by taking into account the different stakeholder needs.

Next, on the basis of this evidence we underline that other, more inclusive and enlarged, models of corporate governance are possible, and thanks to the contribution by the economist Robert Frank we point out that socially responsible firms can succeed in competitive environments just because of their true and genuine commitment to more sustainable and involving business practices.

Therefore, in the last section we introduce the collaborative approach. According to this perspective,

the goals of a collaborative enterprise are multidimensional and the final purpose is to provide stakeholders with fitting (social, cultural, economic, institutional, environmental, and so on) values.

Is responsible competitiveness an adequate response?

The responsible competitiveness approach developed by *The Copenhagen Centre* and *AccountAbility* and supported by the *Employment and Social Affairs DG* of the *European Commission* aims to address the conflict between competitiveness and corporate social responsibility (Zadek et al., 2003).

Zadek and his colleagues are right in suggesting that there are inherent limitations to the “business case” that provides an economic rationale for companies to invest in improving their environmental and social performance. They respond as follows:

Some of the measures demanded of companies in the name of corporate responsibility are incompatible with current business models and markets. Pharmaceutical companies cannot alone provide affordable drugs to the poor, and the footwear companies cannot just decide to pay workers in Mexico or Vietnam a wage comparable to that earned by workers in London or New York. The challenge is not so much to ‘find’ profitable opportunities in today’s markets, as to create markets (in societies) that systematically reward responsible practices (Zadek et al., 2003, p. 1).

In the responsible-competitiveness approach, corporate responsibility is required to be consistent with and mutually reinforced by national and regional competitiveness strategies. “Business can compete effectively across the responsibility spectrum, spanning the investment in environmentally-friendly technology and raising productivity by improving their employees’ work-life balance, through to cutting corners on environment and labor standards and engage in corrupt relationships with governments” (Zadek et al., 2003, p. 2).

The conclusion is that:

- i. Scaling-up corporate responsibility can be more effectively achieved where it supports, and is supported by, national and regional competitiveness strategies.

- ii. Public policy aiming to scale-up corporate responsibility practices should be established within broader competitiveness strategies.
- iii. Competitiveness strategies, similarly, should reflect the potential for corporate responsibility to support “responsible competitiveness.”
- iv. “Corporate responsibility clusters” offer pivotal mechanisms for scaling-up corporate responsibility practices through their effective integration into national and regional competitiveness strategies (Zadek et al., 2003, p. 5).

The basic problem with responsible competitiveness is that in this approach, corporate responsibility is subordinated to and used as an instrument for economic competitiveness.

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 (Bouckaert, 2002; Zsolnai, 2003).

We should ask whether the idea of competitiveness is compatible with achieving sustainable and responsible business performance.

Critiques of the competitive model

Sumantra Ghoshal’s approach

A world-renowned London Business School professor, the late *Sumantra Ghoshal*, heavily criticized the current management mainstream, including *competitive strategy* developed 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... (Birkinshaw and Piramal, 2005, p. 15).

Some diminishing components of social welfare are not just a coincidental byproduct of Porter-style competitive strategy, but they are the fundamental objective of profit-seeking firms and their managers. Within the current management framework there is no escape from the conflict between economic goals and their social and moral implications (Birkinshaw and Piramal, 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 (Birkinshaw and Piramal, 2005, p. 24).

In his latest works Porter tries to address the emerging issue of corporate social responsibility (Porter and Kramer, 2002, 2006), but Ghoshal's arguments are still well-grounded. In Porter and Kramer's contributions corporate social responsibility (CSR) 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 and Kramer, 2006, p. 91).

Thus, the current competitive model, which still prevails, requires a fundamental correction to enable companies to develop really sustainable and responsible ways of doing business.

Some examples of collaborative experiences

In this section we are going to present some real life working models of the collaborative approach. We describe the Italian Coop case in a detailed way and we provide some other examples from the Social Venture Network in the USA.

The Coop experience

Coop is the largest Italian retail chain, with a 17.1% market share in the grocery market. It is owned by more than 6,400,000 members, grouped in 135 territorial consumers' cooperative societies. The retail network consists of 1,331 points of sale, occupies 1,516,621 square meters, and employs 54,029 people. The 2006 turnover was around 11,800 million Euros (see Table I). This dominance on the market is supported and strengthened by Coop's efforts toward sustainability along its entire stakeholder network.

In particular, Coop has built and maintains a distinctive positioning in the market thanks to its true and genuine commitment to sustainability. The principles underlying this commitment are as follows:

- i. The Cooperative is an open society.
- ii. Free and equal people participate in the democratic life of the Cooperative.
- iii. The Cooperative is a joint and social enterprise without purposes of private speculation.
- iv. The Cooperative is autonomous and independent.
- v. The Cooperative teaches.
- vi. The Cooperative works with the cooperative movement, all over the world.
- vii. The Cooperative works to the advantage of consumers and community.

In order to pursue sustainability, the cooperative organization has developed a broad set of initiatives.

New performance management and reporting tools: the social balance/report

Since 1991 Coop has released an annual social report, called Social Balance, on its relationships with the most important stakeholder groups (members, consumers, employees, civil society/community,

TABLE I
Coop main figures^a

	2006	2005	2004	2003
Members	6,448,330	6,205,591	5,889,886	5,505,000
Elected voluntary members, who represent the entire set of members	4,735	4,811	4,589	4,600
Lending members	1,100,018	1,082,260	1,030,000	985,660
Value of the member loan capital	11,400 million Euros	11,112 million Euros	10,370 million Euros	9,780 million Euros
Budget of the members/social policies department	18.52 million Euros	16.67 million Euros	20 million Euros	19 million Euros
Employees working in the members/social policies department	105	100	103	107
Cooperatives	135	140	155	175
Total employees	54,029	52,800	51,800	51,661
Selling area	1,516,621 square meters	1,439,081 square meters	1,369,075 square meters	1,318, 986 square meters
Number of points of sale per trade channel	Hyper 80 Super 600 Discount 222 Small- and medium-sized cooperatives 429 Total = 1,331	Hyper 76 Super 599 Discount 186 Small- and medium-sized cooperatives 436 Total = 1,297	Hyper 70 Super 561 Discount 199 Small- and medium-sized cooperatives 446 Total = 1,276	1,261
New points of sale	64	44	15	37
Turnover	11,791 million Euros	11,473 million Euros	11,267 million Euros	11,000 million Euros
Earnings	338.5 million Euros	282.13 million Euros	120 million Euros	210 million Euros
Investments	550 million Euros	645 million Euros	270 million Euros	535 million Euros

^aSource: ANCC-COOP, 2005, 2006, 2007; Cosumatori, 2006; internal material provided by Coop.

and the cooperative movement). The relationships with other stakeholder groups, such as suppliers, unions, public authorities, and the environment, are also analyzed in the report. This social balance has been focused on the programs carried out and the wealth distributed/invested.

Since 2004 the so-called Social Report is realized and released by ANCC-COOP, the National Association of Consumer Cooperatives (ANCC-COOP, 2005, 2006, 2007). The social report is still based on a framework mainly focused on the most weighty stakeholders (members, consumers, employees, civil society/community, the cooperative movement, suppliers, and the environment), and, within this framework, it presents relevant social and environmental performance indicators. The report is considered a fundamental tool in supporting the social/societal strategy of the group, thanks especially to specific processes of stakeholder engagement.

SA8000: collaboration along the entire supply network for the ethical sourcing

Coop Italia is the national consortium that carries out purchasing, marketing, and quality control activities for territorial cooperatives. It controls more than 3,000 food and nonfood suppliers throughout the world.

In December 1998 Coop Italy was certified according to Social Accountability (SA) 8000, the ethical sourcing standard. Coop Italy was the first European company to obtain SA8000 certification. It first adopted SA8000 internally and subsequently involved all the suppliers of Coop-labeled products in the project focused on the protection of workers' rights. There are currently around 400 suppliers participating in the initiative all over the world. In order to achieve this target, Coop Italy has developed a broad management system for the ethical sourcing by implementing the following processes:

- i. Defining its own social responsibility policy and committing itself to communicating it to the different stakeholders (i.e., not only to suppliers, but also to consumers, trade unions, and NGOs).
- ii. Establishing a code of conduct that suppliers must observe.
- iii. Drawing up a self-certification questionnaire that suppliers must answer.

- iv. Requesting suppliers to accept inspection controls.
- v. Requiring suppliers who fail to meet the required standards to implement an improvement plan worked out with Coop Italy.
- vi. Defining and implementing documentation procedures to manage the SA8000 standard.
- vii. Electing SA8000 worker representatives.
- viii. Introducing a training program on SA8000 to involve all employees in the ethical project.

Thanks to the application of SA8000, considerable improvements were obtained in the working conditions in the companies inspected both in Italy and abroad (e.g., Romania, Turkey, and China) as regards salaries, discrimination, and occupational health and safety. In particular, two serious cases of noncompliance by foreign suppliers in Kenya (the Del Monte case) and Albania were resolved.

In 2002 Coop Italy decided to extend the principles of the ethical project to all its suppliers, including those that do not provide private-label products. In fact, consumers are more and more asking for goods that are guaranteed to meet ethical standards. This development, still underway, is made possible by gradually implementing measures starting from the most critical sectors (like bananas, groceries, fruits and vegetables, textile products, and sports shoes). Currently, the suppliers participating in the project are more than 330. Moreover, Intergroup Far East Ltd., the purchasing organization owned by the European cooperatives including Coop and devoted to nonfood products, has developed a specific project for the local suppliers. In 2006, among the 334 suppliers located in the Far-East area, Coop Italy, through Intergroup, has involved 95 firms. Thanks to this initiative, 58 enterprises have already been certified against SA8000.

Coop Italy's ethical commitment has been recognized at international and national levels. The *Corporate Conscience Award* is an annual award given by Social Accountability International to companies that have particularly distinguished themselves in the area of social responsibility. Coop Italy obtained the *Award 2001* in the *Humane Workplace* category – to guarantee proper working conditions – thanks to its commitment to implementing the principles of the social responsibility policy in the daily activities of companies and controlling the

supply chain in a rigorous and effective way. In 2005 and 2006 Coop also received the *Ethic Award*, organized by GDO Week, one of the most important reviews on retailing in Italy, and by KPMG Advisory, because of the *Polo Solidal* and *Camicia Solidal* projects, which enabled some local producers in India to sell their shirts in accordance with Fair Trade and SA8000 principles in Coop stores.

Thanks also to the investments carried out by Coop, Italy has the greatest number of SA8000-certified facilities in the world (626 out of 1,373 worldwide certifications, as of 30 June 2007: Social Accountability International, 2007).

Private label: a successful experience

Under the Coop label, the Coop system distributes 2,634 items. Between 2002 and 2006 the private-label products have increased their share of the Coop total turnover from 15.6 to 19.5%. In 2006 the turnover reached by Coop products was 2,291 million Euros. In the food sector, Coop is the fourth largest producer in Italy (Cosumatori, 2007).

The private-label products must respect six values: They must be good, safe, of top quality, convenient, environment-friendly, and ethical.

In more detail, under the Coop label, the Coop system distributes Fair Trade products, organic foods, Eco-labeled products, Forest Stewardship Council (FSC) labeled goods, and Dolphin Safe/Friend of the Sea labeled products in order to supply the most complete and sustainable range of products on the Italian market.

Coop products are GMO-free; moreover, the cosmetic products are certified according to the "Not tested on animals" international standard.

The packaging used for Coop products is designed and developed according to the 3R principles: Reducing, Reusing, and Recycling.

Thanks to its preventing-and-reducing policies (i.e., redesign and no overpackaging), from 2000 to 2006 Coop saved 981 tons of materials. Thanks to its reusing policies (i.e., introduction of refills), from 2000 to 2006 Coop saved 1,445 tons of materials. Thanks to its recycling policies, from 2000 to 2006 Coop used 5,160 tons of recovered plastics and 514 tons of recovered paper and cardboard for its packaging.

These interventions were made possible by a broad and innovative use of the LCA (Life Cycle

Assessment) methodology that began in the mid-nineties.

Moreover, Coop also fosters and promotes, under its label, the local, traditional, and genuine foods supported by Slow Food's Presidia, which are projects to assist groups of artisan producers and save artisan products. Established by Carlo Petrini in 1986 in Italy, Slow Food is an international association that promotes food and wine culture by defending food and agricultural biodiversity worldwide (Slow Food, 2007).

Finally, in 2006 Coop started a new initiative, called "Coop for Kyoto," with suppliers of private-label products in order to promote a voluntary program of reduction in emissions of greenhouse gases in line with Kyoto targets. Some important business partners have already decided to join this project.

The Coop system: an engine of development for the local communities

The projects at the local level are carried out by the territorial cooperatives. For example, since the late 1990s, Coop Consumatori Nordest, one of the nine big territorial cooperatives, has developed a broad campaign called Advantages for the Community, aimed at fulfilling specific social needs of the local communities in the fields of education, training, and welfare policies. This community program is based on partnerships among the cooperative, NGOs, and public institutions (Meglioli, 2001). In 2006–2007, through this campaign, 222 associations and social cooperatives were involved and 49 initiatives realized. Therefore, the role of territorial cooperatives is very important, and over the years many of these societies have developed their own good practices in the fields of stakeholder management and performance management and reporting (e.g., see Coop Adriatica, 2004, 2007).

Other experiences and common features

Coop is not alone. Values-driven companies participating in the Social Venture Network in the USA are other fascinating examples of collaborative ways of doing business. They include ShoreBank, the USA's first and leading community development and environmental bank, Wild Planet Toys, which

makes innovative toys involving children in the product development processes, Give Something Back Business Products, which donates its profit to community organizations selected by the company's customers and employees, Avalon Natural Products, the leading brand of natural and organic body and skin care products with its "consciousness in cosmetics" philosophy, Pura Vida Coffee, the premier sustainable beverage company, Seventh Generations, the leading brand of nontoxic and environmentally safe household and personal care products actively pursuing dialogue with people (Cohen and Warwick, 2006).

All the companies presented in this section share more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance – which goes beyond the narrow concept of financial bottom line and into a stronger and systematic care of the needs and requirements of the different stakeholder groups. In other words, these cases strongly show that an open and collaborative attitude in business is possible beyond the traditional paradigm of competition.

These examples support the idea that we need to rethink the corporate governance issue (Bowie, 2006; Ghoshal, 2005; Kay and Silberston, 1995; Letza et al., 2004, pp. 255–258; Mills and Weinstein, 2000). The prevailing approach based on the agency theory (Garriga and Melé, 2004, pp. 53–54; Jensen and Meckling, 1976; Ross, 1973) and focused on maximizing shareholder value (Fernández, 2002; Friedman, 1970; Rappaport, 1986, 1998) has conducted to evident aberrations (Stiglitz, 2003; Ghoshal, 2005, p. 81). Notwithstanding these results, the agency theory still rules and influences the regulatory interventions aimed at reforming corporate governance prescriptions. But, as John Kay underlines:

Business organizations are not purely instrumental, their business objectives ancillary to an underlying financial purpose. And to treat them as such not only undermines the legitimacy of capitalism as a system but reduces the effectiveness of the corporations themselves (Kay, 2004, p. 184).

With regard to this issue, Clarkson points out that the pursuit of the single "shareholder value" measure is self-defeating (Clarkson, 1995, p. 112) and Ghoshal highlights that "companies survive and

prosper when they simultaneously pay attention to the interests of customers, employees, shareholders, and perhaps even the communities in which they operate" (Ghoshal, 2005, p. 81).

Therefore, new, more inclusive and enlarged models of corporate governance are needed especially because shareholders are not the exclusive owners of the company (Donaldson and Preston, 1995) and the entire set of risks and liabilities are shared also by other stakeholder groups such as employees, suppliers, customers, financial backers, public authorities, local/national communities, future generations, and the environment (Letza et al., 2004, p. 256; Zsolnai, 2006).

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.

Many examples of stakeholder engagement processes reinforce this position. Effective activities of dialogue, interaction, and collaboration with stakeholders are not a dangerous waste of time, but enable a company to:

- Reach a general consensus among stakeholders with regard to the decisions finally adopted by the firm, reinforcing the business "license to operate" (Kern et al., 2007);
- Build, strengthen, and consolidate sustainable relationships with stakeholders, that is, the social capital (Maak, 2007);
- Lower transaction costs (Rigling Gallagher and Gallagher, 2007);
- Generate a durable competitive advantage through reputation- and trust-based linkages (Freeman et al., 2007);
- Design, produce, and deliver more value-added, environmentally friendly, and socially cohesive outcomes (Brugmann and Prahalad, 2007; Post et al., 2002a, b).

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.

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 and 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 and Singh, 1998; Post et al., 2002a, b). It encompasses not only relationships with firms, but also with other stakeholder groups (e.g., governments and civil society).

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.

The different cases presented show in a clear way that on the market there is place for alternative approaches, sustainable from the financial, social, and environmental standpoints.

The main goal in the competitive model is maximizing shareholder value. In the collaborative approach goals are multidimensional and the final purpose is to provide stakeholders with fitting (social, cultural, economic, institutional, environmental, and so on) values.

Concluding remark

Everybody knows the story of Tatiana from Pushkin's famous poem *Eugene 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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