

Sustainable world and lasting corporations

Revamp business policy¹

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ABSTRACT: *This essay reviews the history of strategic management as a field of study and the reasons for its progressive inability to address today's issues in order to make the case for a new approach on strategic challenges based on corporate social responsibility, corporate governance and moral philosophy. In conclusion, management science is invited to welcome more non mainstream insights to reinforce its knowledge base, and strategic management is called to revisit business policy.*

Key words: Strategic Management, Corporate Social Responsibility, Moral Philosophy

TÍTULO: Mundo sustentável e empresas duradouras: reformular a política de negócio

RESUMO: *Este ensaio recupera o percurso histórico da gestão estratégica enquanto disciplina científica, e as razões da sua progressiva perda de capacidade para ajudar a resolver os problemas do mundo atual, no sentido de propor uma nova abordagem aos problemas estratégicos baseada na responsabilidade social da empresa, governança corporativa e filosofia moral. Em conclusão, as ciências de gestão são convidadas a acarinhar mais contributos de correntes fora do mainstream para reforçar a sua base de conhecimento e a gestão estratégica é chamada a visitar a política da empresa.*

Palavras-chave: Gestão Estratégica, Responsabilidade Social da Empresa, Filosofia Moral

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INTRODUCTION

This essay is rooted in a deep epistemological critical-view on the field of strategic management and a growing concern about the mainstream conversation (and ideology?) that has been progressively established by this scientific community.

We take a knowledge philosophy view point, namely that of Aristotle revisited by north-American pragmatism, especially Dewey, and use Piaget's genealogical approach. We discuss the actual strategic context in Europe, especially in France, and outline alternative ways in which the field can deal with this situation.

As a result, our aim is ultimately to help answer the following question: "How did we get here and how can we rebuild lasting and responsible corporations leading to a more sustainable world?"

WHERE HAVE WE COME FROM? THE RISE AND FALL OF STRATEGIC MANAGEMENT

The following centers on our main field of interest – strategic management – but it also applies to general strategy.

Regarding strategic management:

100 years as a teaching course, 50 years as a research field, 30 years as a leading subject, 20 years of progressive erasing.

Step by step: the adventure of the field

- 1908-1959 – Business Policy: Pragmatism, case studies, explicit ideology.
- "The crazy 1960's" – conceptualizing corporate strategy: Andrews, Chandler, Ansoff... Praxis, heuristics, design, or better, disegno, ingenium.
- 1970-1985 – "From strategic planning to strategic management" (Ansoff, 1976): Praxis approach challenged by the positivist approach, recommended by the Academy of Management conference at Pittsburgh (Strategic Management Society in 1978, *Strategic Management Journal* in 1980).

Co-existence of two research approaches that ignore each other: strategic content and performance by economics scholars versus strategic process by sociology scholars.

Over time, the economics approach and later the financial approach have led scientific production. Williamson calls it strategizing vis-à-vis economizing in the pages of the *Strategic Management Journal* (1991).

In 2007, a thorough survey (by Nag et al.) published in this canonic review established the consensus that strategic management is a research field focused essentially on large listed companies developing a competitive advantage in the market to maximize shareholder value. Issues related to corporate social responsibility, sustainable development, ethics, etc., are considered peripheral.

We can imagine how sad Ansoff, who died in 2004, would have been if he had read this survey. He had developed the manifesto of strategic management in opposition to Milton Friedman's theory of the firm...

Flow and reflow in the practice of strategy in this period

Between 1960 and 1990, there was an amazing development of strategic management among big western corporations triggered both by academic conceptualization and the action of consulting firms (BCG, ADL, McKinsey...). In this period, a remarkable proposition was constructed: *Corporate strategy* that consists of building and developing portfolios of activities with more or less synergies between them that should be diversified to ensure long range growth and balanced cash flows. This involves financial strategies mixing equity with debt leverage in a reasonable way via the banking system. At the same time we see seminal theoretical work on corporate social responsibility and also some visionary perspectives in the business world like the “dual commitment to business success and social progress” of Antoine Riboud, Chairman of BSN (later, Danone), in 1972.

Starting in the 1990's but gathering pace from 2000, “the ten financial commandments” led governance, strategic management, corporate law and management. A huge change took place in profit status which went from ex post calculated margin for distribution among shareholders to an ex ante target that must be achieved no matter what.

Corporate governance, inspired by Agency theory and the so called “nature of man” – Jensen and Meckling's REMM-PAM model – imposes its formal best practices and buzz words on strategic management: benchmarking, cost cutting, downsizing, outsourcing, CRM... Financial based management, mixed with common sense psychology (coaching, leadership...) intending to be universal – “the end of history” – ruined the basic principles of both strategic management and military strategy: uniqueness, context, balance between dimensions, long range synergy building...

There has been an inversion of approaches: portfolio risk management through asset diversification is now the work of financial investors and no longer that of the company which must be a single activity. The related epistemological revolution is

just as important as the new “truth regime” because is managed by agencies, analysts... entitled to give notations, to appoint, to sanction, and finally to tell business leaders what they must do. By accepting these conditions, corporate leaders are entitled to negotiate with their boards obscene benefits: bonuses, stock options, pension plans, etc.

This transformation has been particularly marked in France where it has co-existed in a quasi-secular way with an industrial private capitalism, a world of engineers not very keen on marketing and dividend distribution, and State capitalism guided by high-rank but well integrated and competent public servants and technocrats. Ironically, change has been driven by socialist governments and implemented by tax inspectors with personal interests in the process, recruited both in State-owned and private-owned companies.

Political and strategic sinking, complexity denial, lack of judgment, disregard for cardinal Latin virtues (temperantia, justitia, prudentia, fortitudo,...), denial of culpability if not responsibility, lack of reasoning and apology of an utilitarian mimetic rationality, short-term centered and financially oriented. Jensen and Meckling's dream or Walras' nightmare: it is not social economy that succeeds but rather the axioms of pure economy – instantaneousness, maximization, quick and constant entry-exit market moves, the triumph of legal contracts. The achievement of the «idiots rationnels» of Amartya Sen.

Strategic management and the philosophical debate

Since 1994, several articles raising philosophical considerations on strategic management have been published in *Strategic Management Journal*. Unsurprisingly, most of them relate to scientific production, both at epistemological and ontological levels where ideology takes no part. With very few exceptions (e.g. Singer, 1994), this scientific community has taken no interest in moral philosophy, and a realistic pragmatic rationality is widely accepted as the main source for scientific research in strategic management.

Today's issues unquestionably challenge the field's roots in economic rationality and ethics and the very purpose of strategic management whenever its practical result is the fate of millions, if not billions of people.

Taking Singer's approach, “the only distinction between rationality and ethics [...] is that the former emphasizes means, while the later emphasizes ends. Yet, in theory as in practice, means and ends are inextricably intertwined”. He also points out that “by analyzing reason [...] we find the key to morality” (DeGeorge, 1990 p. 66).

We believe that the moral mainstream approach of the pursuit of self-interest (egoism) that has guided capitalism since the origin of economic science must be replaced, both in a positive and political analysis, by the prescription of doing the greatest good to the greatest number (utilitarianism).

In practice, for the purposes of strategic management, this means developing in priority stakeholders and corporate governance theories.

A policy – strategy gap in need of urgent recovery

Financial storms come and go in banks, diminishing private savings and investments, in governmental resources that are called to save the system, and then in debts erroneously called “sovereign” because of their dependence on agencies, and also in local communities dangerously exposed to toxic “assets”.

We can no longer speak about crisis. It is a new status quo for the entire western world in spite of significant national or regional differences. The strategic emptiness found in Southern Europe is extremely worrying. The same response is given to each new financial issue: creation of a fund and of a defeasance structure, more or less virtual resources from obscure sources.

Generally speaking, political leaders, big corporations and financial groups are in levitation, “above the ground”. Among them, middle management struggles and the citizen is erased behind the homo economicus individualist yet mimetic (in René Girard’s meaning), alternating the small private pleasures, the public yet ephemeral compassion, and the search for assurance.

But the world is not flat: different forms of capitalism are at war to use a title from France’s Cercle des Economistes. Chinese capitalism is static if not communist, India has a caste democracy, the economies of the Gulf are rent-based, monarchic and religious, Russia is rent-based and oligarchic... And the world reverses because those countries’ nationals fight big western corporations, many of which are extremely vulnerable to new strategic complexity. It is urgent to rediscover geo-politics, geo-economics, local cultures, anthropology, as nurturing mothers of true strategic thinking.

REGENERATING BUSINESS POLICY TO MAKE OUR WORLD A BETTER PLACE TO LIVE

We have argued in several recent scientific publications that regenerating business policy is even more indispensable than the need to remake strategic management.

In the following sections we will indicate the key topics that should participate in this regeneration of business policy in practice but also as part of the field of management.

Re-foundation of the Enterprise

Lost in translation: to put it simply, this is what the Enterprise has become. Management science, and undoubtedly Economic theory, have progressively abandoned their core subject, the Enterprise, in favor of euphemized concepts such as “the firm” that prevent thinking about the whole enterprise in its primary nature: a project in constant regeneration. A project that must be virtualized before being updated, the product of various resources and stakeholders that should be properly rewarded for their cooperation. In Europe’s current situation, how can we disregard the distribution of thousands of euros made recently by Volkswagen to each employee, result of a growing economic situation, we once said? Obviously the Enterprise is not a de jure imposition and it is no one’s property. Quite naturally, the purpose of shareholders is to get fair compensation pro rata of their shareholding. But this capital society would only support the creation and regeneration of an enterprise if each stakeholder got its share, especially because cognitive capitalism turned performance into an even more collective achievement. Therefore, profit status is at stake as well as its appropriation. The performing enterprise is built with time and responsibility, as valuable research work has demonstrated especially in relation to big family businesses.

Revisiting and re-teaching an effective and efficient variety of organizational forms

The large listed company has a damaging halo effect both in management teaching and business press. How many MBA graduates have never heard of cooperative societies, mutuality and sometimes of their extraordinary performances whenever they do not fade to the mimetic look of capital societies? Certainly Brazil, Quebec and others have a tradition of studying these forms that in France remain basically the field of socio-economists of Social and Solidarity Economics with very little input from management scholars. Is it well known, for example, that ten years after the legal form of cooperative society of public interest was created in France, it has a significant and perennial success that is at least much better than share capital societies incorporated in the same period. Quite open to different stakeholders and very flexible, they welcome lasting labor relations with their employees.

The same applies to family businesses, non-listed companies, etc. that are however studied by management scholars, particularly in Italy and Canada.

Working on policies to reduce strategic risks, especially by cutting off companies future from the hazards of financial markets

The repurchase of own shares can certainly be an interesting short term policy. But what about for a corporation that systematically rebuys hundreds of million euros in shares over a ten year period? For CAC 40 companies in France, these schemes accounted for more than 3 billion euros in 2010 and a little over 5.9 billion euros in 2011. Bouygues repurchased 1.4 billion followed by Sanofi with 900 million and Danone with 588 million. These operations were generally welcomed by market analysts that confirmed the injunction, as required, preventing business leaders from investing free cash flows to diversify their industrial activities, and investing them in the financial markets instead.

France is a significant example of sovereign debt management: while French households have invested a considerable amount of savings (1500 billion euros) in State bonds, even when poor interest rates were offered, this heritage was misused and placed in financial markets. Two thirds of this debt is now owned by foreign investors and faces the constant threat of notation downgrading and therefore of interest rate increase. The same applies to Portugal where essentially it is no longer possible for the regular citizen to buy State debt. In contrast, Japan decided on an independent strategy in spite of minimizing the instantaneous cost of debt issuance.

From advanced Corporate Social Responsibility to Corporate Political Responsibility

Although still too superficial and, as mentioned above, barely tolerated by mainstream approaches, CSR could take ambitious shapes such as BoP strategies (Bottom of the Pyramid). Inspired from the seminal work of C. K. Prahalad, they are deployed by big corporations and in certain conditions of close evaluation, could make a difference in the fight against extreme poverty.

In a series of four scientific papers in *Revue Française de Gestion* and *Management International*, a BoP strategic framework was proposed by A. C. Martinet and M. A. Payaud featuring dialogic and anthropologic behavior to preserve local communities and the eco-systems where they belong. It suggested crossing the “coûts de l’homme” from F. Perroux and the capabilities from A. Sen and M. Nussbaum in order to evaluate the virtues, from the point of view of the populations concerned, of these BoP strategies that seek to achieve a social goal but that must be economically viable for the enterprise and its partners. Danone Communities, Schneider Electric, Nestlé are among the current cases that go beyond experimentation or pure show-off.

Besides advanced CSR practices such as the BoP strategies, research in Management science must revisit corporate political responsibility. The mainstream body must undoubtedly establish closer ties with political science as it has leaned too far towards economics and finance. Fortunately, courageous scholars have begun working seriously on domestic democracy, on oligarchic relations found in certain countries between political leaders and business leaders, on the role of organized crime in the capital structure of several corporations. Economist Philippe Aghion eloquently showed that in the so called “totally democratic” 30 nations of the *Polity IV Index*, the most democratic in terms of the fight against corruption, media independence, power separation and balance and so on have much higher innovation and economic growth rates. With more sophisticated concepts and methods, Management science could and must achieve this type of research. Financial delinquency, ecology, society, politics are also management theme areas as shown in the FNEGE’s *Etats Généraux du Management* held in Paris in 2010.

CONCLUSION

In conclusion, we can only argue for and take action towards a much more bounded Management science than what is inexorably found in the mainstream promoting generalized cause-effect explanations. Let’s be very clear: contextualization is not only about contingency factors in small research models “if A then B”. It must go beyond this to cause factors that allow analyses taking into consideration institutions, cultures, habits, path dependencies built by History scholars. Max Weber’s work and especially his culture must be revisited.

Management and business policy in particular cannot be safe “over-ground”. Research cannot be totally a “no man’s land”. To achieve this, it is essential that both management research and management teaching regain culture and language.

Quoting the French mathematician L. Lafforgue, Fields Medal 2002: “We usually say that the fact that French mathematical school has such an exceptionally high rank in the world allows it to preserve the use of writing in French. I believe the cause-effect relation is the other way around: It is because it remains attached to French language that it preserves its uniqueness and force. (...) Scientific creativity is rooted in culture in all its dimensions, linguistic and literary, philosophical, even religious” (*Pour la Science*, March 2005, p. 8).

What is true for Mathematics is even more so for Management as it is a social activity placed in time, space and society. “Embedded” to summarize K. Polanyi’s expression. That is why we need more critical thinking in Management and less “dominant

logic”. That is also why many Chinese leaders have banished PowerPoint presentations and begin their business meetings with American executives by saying “no cartoons please, we want to think”.

“Europe contains true interrogation” wrote Czech philosopher Jan Patočka. In general, Greek-Latin cultural and linguistic structures are in good shape, a nest of questions about the life of Man in society in the last 25 centuries.

NOTE

1. The basis of this essay was developed by A. C. Martinet as Scientific Director of *Etats Généraux du Management des Pays d'Expression Latine* and was orally presented in Cascais (Portugal) on March 21st, 2012. This text includes additional contribution from Renato Pereira developed in the context of the same scientific network.

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