Does The Lisbon Strategy Demand A Cultural Transformation In European Business?

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Las esperanzas puestas en la Cumbre de Lisboa el año 2000 no se han cumplido, ya que el proceso no se ha realizado. Se ha vuelto a replantear si aquel giro drástico de la orientación europea se ha considerado una utopía o sencillamente era errónea o si bien no ha habido fuerza política y económica para este cambio. La nueva orientación a las personas en búsqueda del conocimiento como respuesta a la competitividad europea se vuelve a plantear dado que es la nueva orientación que está realizando el mundo empresarial. Los sistemas de dirección y de organización de las empresas han asumido esta "visión" y la están realizando más allá de la propia realidad del marco político.

The hopes placed on the Lisbon Summit in the year 2000 have not been realised. Once again the question has been raised of whether this drastic change in Europe’s direction has been regarded as Utopian, quite simply mistaken or even if there has been no political and economic will for such a change. Given the fact that the business world is undertaking this new orientation, the subject of the new individual-based orientation in the search for knowledge as the response to competitiveness in Europe is being raised once more. Businesses’ management and organisational systems have taken on board this “visión” and are advancing it beyond the bounds of the political framework itself.

Keywords: Europe, Lisbon Summit, Culture, Transformation.

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1. Introduction

Europe, like most of its institutions, is undergoing a process of historic change. This is one of the greatest challenges to have arisen in recent decades – a challenge which is a historic opportunity yet it is also an opportunity entailing great risks. The greatest of these risks is a strategic orientation that is both mistaken and slow.

The challenge is predominantly a human one. Indeed one could say that the day of "European man" has dawned. There are two elements that are going to define the success or failure of this transformation process:

- The rediscovery of the “individual”, of the person, as the basis of all social and economic action. This is a person who, in terms of his or her values and behaviour, is fundamentally oriented towards a complex and decisive historical cultural change.

- Simultaneously there is an attempt to recover confidence in the “institutions” since if this confidence does not exist, it is impossible for both the economy and for business management to function. Neither will Universities and knowledge venture beyond their traditional bounds nor will politics and the community seek new alternatives.

Furthermore, confidence is based on transparency and on the reputation of people and institutions. This is the reason for which in recent years, and with increasing insistence, ethics have become the cornerstone of this confidence in an open society. And to a great extent, the confidence factor is lacking.

Ethics is simultaneously the basis of business management in decentralising organisational reforms and the basis of all transformation. The lack of people’s and institutions’ credibility generates such great barriers to change that they either make transformation difficult, if not impossible, or they seriously increase “the process costs”.

In this presentation we are going to expound the characteristics that lay the foundations for business transformation, a transformation
that is predominantly cultural. As a consequence, such a change also takes place at an individual and institutional level and in these latter lie the keys to the transformation’s success.

2. The Lisbon Agenda’s Significance and its Contribution

Independently of the “failure” in the execution of the *Lisbon Agenda* over the last five years and of the new approach undertaken during the last few months (Kommission der Europäischen Gemeinschaften, 2005), as a tool for the orientation of the employment transformation mentioned, the *Lisbon Agenda* is of undisputed value. It provides a valid orientation for economic and social transformation in European society, a transformation that has to be undertaken within the European context, in all of its institutions – such as how individuals interpret value preferences – and it must give an orientation for the transformation of the business situation, both in its economic dimension and in its company and social dimensions (Prodi, R., 2000).

The aim of the *Lisbon Agenda* is oriented towards transforming Europe and the Europeans. The individual has become the agent and his or her objective is transformation.

Unfortunately, the *Lisbon Agenda*’s error lies in the instrumentalisation of a transformation process of these characteristics, in its political and institutional dimensions and especially in the design of the “action plans for change”. The *Lisbon Agenda* is mistaken because it seeks a manner of transforming institutions and behaviour in “administrative systems” without, incidentally, taking the individual as a person into account.

Let us see precisely what the characteristics or profile of demands proposed by the *Lisbon Agenda* (European Parliament, 2000) are:

- Firstly it presents the great effort entailed by transforming the labour market.
- And this is fundamentally because it rests on the creation of new activities illustrated and reflected by new occupations.
Which in turn is something that requires deep structural changes in three areas, fundamentally in:

- Innovation.
- Research.
- Development.

Paying great attention to the whole of the European educational system, in other words the "administrative system" of European education, with a high level of state intervention.

However together with these fundamental keys to transformation, and as its obligatory companion in order to perfect the processes that are already under way, there is also:

- A greater deepening of capital markets reforms.
- The elimination of barriers that hinder competitiveness.
- Especially with regard to the services sector.
- A greater degree of liberalisation in the energy, postal and transport sectors.

Within this context (Issing, O., 2004) it is evident that the idea and "vision" developed by the Lisbon Agenda presupposes three fundamental conditions:

- The confidence of individuals in the structural reforms with the individual as an integral part (which indeed he or she is) of the transformation process. To date this total involvement of people in the historic moment that they are living in has not taken place.

- The transformation must be measured and thus the knotty problem of indicators arises.

- The Agenda’s aim is to implement, and not to reflect in documents, an idea and its execution, something that always requires a prolonged effort involving great difficulties and therefore it is the individual who must perform the transformation process proposed by Europe. And this latter has, quite simply, not occurred.
However, politicians, businessmen and women and people occupying positions of responsibility within society must not forget that any transformation of this size is intimately linked to a new system of values and that such a system must necessarily generate a new "preferences function", the primary preference being located in the transformation oriented towards the improvement of the future possibilities for the development of the individual in Europe (Lübbe, H., 1998).

What is expected of this transformation which the Lisbon Agenda highlights more as "vision" than as "action plans", is an increase in the mobility of production factors in order to use them more efficiently and an increase in productivity, no longer simply in the business sense, but also in the sense of achieving the most efficient use of the capacities available in Europe within the fields of the available knowledge, education and innovation (Commission of the European Communities, 2005).

The pre-existing efficiency in Europe of the availability of production factors, especially those based on the individuals and their knowledge must contribute to productivity. This is not only a strictly economic referent but is also has a dominantly ethical value of the first magnitude, oriented towards the development of the individual as a fundamental key within the European context, within his or her community.

Therefore there will be new capacities to give individuals employment, to help them develop, and consequently for them to use their capacities. Prices of goods and services within the European Union will be lowered while simultaneously incomes and the EU's intellectual level will rise. This then is the formal basis of the Lisbon Agenda's approach and only thus will a perspective for sustainable growth be achieved (Kommission der Europäischen Gemeinschaften, 2005).

Therefore, the evaluation of the Lisbon Agenda as a contribution to the cultural transformation of European business and its protagonists, businesses and workforce, trades unions and politicians, as well as their environmental conditions, must support this transformation process. Undoubtedly, this vision contributed by the Lisbon Agenda constitutes a challenge for European citizens, a
challenge that is decisive if the necessary transformation of Europe’s institutions is to be genuinely accepted by all of the economic, social and political actors (Prodi, 2004).

The implementation of this transformation process depends on this "vision" of a greater decentralisation of the said process within the European context and consequently the individual States have to design good economic and social policies so that the causes of the present problems can be swept away. Only by solving these problems will we have a positive response. What is needed is another way of institutionalising and organising this whole process, a question that is the great failure in the Lisbon Agenda. However, we must also note that this was not the Agenda’s mission (Reding, V., 2005).

Admittedly, many transformation processes are complex and difficult to realise and due to this fact they need complementarity at a European institutional level in order to give them momentum. In our opinion, it is a case of establishing from an EU perspective, and with the involvement of all of the States, something that in business terminology are known as "guidelines", "principles". Such guidelines and principles must, at a highly abstract level, be used by all States when orienting their policies and decentralised transformation processes, at the level where the local allocation of resources as a function of their culture, means and patterns of behaviour, is defined.

Furthermore, there are highly important executive elements of this transformation process, what we term as the "line", that regulates the execution and implementation of the processes at specific, concrete, levels within each State. This “local” work undoubtedly corresponds to the operational part of the process, since only in the social, cultural and political reality of each State can the conditions necessary for the success of the transformation process be found. Each State with its cultures, traditions and experiences, undoubtedly configures a specific ambit that needs to be guided by corporate principles at a community level so that it can execute the necessary measures to involve its people (Lautenberg, A. P., 2005).
From a business point of view, we find ourselves before two large institutionalisations with regard to the organisational form of the transformation process that Europe must undertake:

- The "community", the "corporation", corresponding to the global vision, the corporate at a European level within the transformation process.

- The operative level "operational line", undertaken in each of the States.

In great measure the success or failure of the transformation process and the generation of confidence within the ambit of business will depend on this organisational design.

But perhaps one of the key problems, already mentioned, to the whole Lisbon process is that not only has there been a lack of drive oriented towards the individual, but there has also been a lack of orientation in the European transformation process and in its "reforms" themselves. Undoubtedly this lack of, or erroneous, orientation is one of the most frequent errors committed in the contemporary business world (von Pierer, H; Mirow, M., 2004). Furthermore, this orientation cannot be substituted by "administrative" measures in order to interpret the reality of a transformation process of this type. It is unplannable.

A transformation brimming with opportunities of the sort facing Europe has to be implemented in a different way. The Lisbon Agenda’s great error is undoubtedly that of the process’ administrative instrumentalisation as well as, and rightly so, its interpretation as yet another form of intervention by the States, an intervention that does not respond, globally or operationally, to the demand that change in any of the States and in any of the lines of action must of necessity involve the individual.

In sum, it is an attempt to transform without the involvement of the "individual". Yet, given the new values system orienting him or her towards the objective which from a global European perspective might produce the support and confidence necessary for the creation of the conditions for transformation in each State and in each of the
different processes, what is in fact necessary is to "situate the individual".  

Firstly, therefore, it is the configuration of a new *system of values* marking a new "social preference function", in the first instance and an economic and social function through global guidelines in the second instance that promote the transformation processes in each of the States based on a series of common "principles" enabling the transformation processes to involve individuals oriented toward the operational line.  

In organisational terms, the intensification of *decentralisation* in the "action plan" in each of the States and in each of their constituent sectorial ambits is undoubtedly the factor for success, substituting the use of planning in this "administrative" European vision (Lübbe, H., 1998).  

### 3. Orientation of Management Systems in Europe  

All social, socio-economic or business transformation processes require three great forces to enable it to be implemented:  

- Firstly that the orientation given to the transformation process is *comprehensible*, that it is regarded as viable and that it corresponds to the foundations of confidence on which lie the expectations of those wishing to achieve the aims to be attained in each of the business or personal projects.  

- The *second* fundamental force is the existing capacity to institutionalise the transformation process, in other words the configuration of the *corporate institution* in which a series of *principles and values* are shared. These principles and values correspond to a generalised acceptance with regard to the manner in which the implementation process is to be executed. Furthermore, *organisational* designs have characteristics that simultaneously are increasingly decentralised and of growing importance within the terms of globalisation, in other words, the phenomenon termed as *network building* (von Pierer, H; Mirow, M., 2004).
The third basic force are the expectations placed on institutional governance. Such expectations are not merely financial or those prevailing in the ambits of capital and information markets – they also correspond to the manner in which the transformation process is executed. In other words, the manner in which the problems that arise are solved.

Die einseitige Betonung des Shareholder-Ansatzes hat zu Auswüchsen geführt, die politisch und auch etisch nicht tragbar sind.

(Von PIERER/Mirow)

From this perspective, the process of reform in Europe is a reality. Since the mid 90s there has been a systematic business transformation in many areas of both the economic and social ambits. Admittedly, in the last ten years many of these transformation processes have been characterised by an evident disorientation within business management. This disorientation in management systems has focused externally on the shareholder-stakeholder value debate which has led to the configuration of different cultures and reflects the question of the role the individual should play in the economic and business transformation process (von Pierer, H; Mirow, M., 2004).

The question raised therefore is how the European transformation process should be configured (and the nature of the vision concerning the approach of the transformation process to take place
in Europe) its institutions and the behaviour patterns of its individuals.

There are many different and highly authoritative opinions that, from a business perspective, consider that within a ten-year perspective an erroneous orientation has been proposed with regard to the configuration of business management and that consequently this error is also present not only in how businesses have been transformed but also in how the resources to produce the said transformation have been allocated (Rodenstock, R., 2005).

Therefore, Mr. von Pierer, until recently Chairman of Siemens, together with Mr. Mirow, who was in charge of strategic planning for many years, indicate (as illustrated in Figure 1) that the univocal shareholder approach to orientation in the interpretation of the transformation process has undoubtedly led to abuses that are unacceptable from both a political and social point of view (von Pierer, H.; Mirow, M., 2004). Furthermore, there are two fundamental factors that led this orientation to commence in the early 90s and to its being systematically discredited. Not only is the company’s economic and social activity and the activity of an economy with a univocal orientation towards value creation that has led to abuses to blame, it is above all due to the fact that managers, like politicians, must consider how, in a transformation process, the interests of all those involved in the process, be it a business or economic transformation, can be harmonised (von Pierer, H.; Mirow, M., 2004).
Aus heutiger Sicht haben zwei Faktoren den Shareholder-Ansatz in Misskredit gebracht: Zum einen hat die einseitige Betonung der Wertsteigerung zu Auswüchsen geführt, die politisch und auch ethisch nicht tragbar waren. Heute bemühen sich die meisten Manager daher eher, die Interessen aller beteiligten Stakeholder.

(Von Pierer/Mirow)

#### Figure 2

Clearly differentiated cultures are generated as the results of one orientation or another. This process of cultural change does not occur overnight, it is a long process but one which over ten years represents a structural change in cultural values and one that even leads to profound ruptures.

Another important confirmation of this debate on the orientation of management systems can be seen in the statement by a CEO (Rodenstock, R., 2005) who indicates that the basic principle in all actions is not only the individuals’ perception of the transformation process, but also their willingness to participate in it.

Figure 3

And only when such circumstance arise in willingness and in the renunciation of the prescriptive regulatory part on the half of the legislator, of the State, do the conditions exist within a business or an individual to commence the transformation of processes through innovation or creativity.

Figure 4

"Tragendes Prinzip für alle diese sozialen Massnahmen sind Einsicht und Freiwilligkeit. Erst die Freiwilligkeit und der Verzicht auf Vorgaben durch den Gesetzgeber setzen die innovativen und kreativen Kräfte in den Unternehmen frei."

In den allermeisten Fällen ist die soziale Verantwortung der Unternehmen ein ganz selbstverständlicher Teil der wirtschaftlichen Logik. Deswegen gibt es für mich auch keinen zwingenden Widerspruch zwischen wirtschaftlicher Logik und sozialer Verantwortung.
Another aspect that strongly differentiates both orientations is that which particularly affects everything involving the social responsibility of a business in constant transformation. This social responsibility undoubtedly forms a constituent part of the very economic and business process itself and it is for this reason that the economic aspect cannot be understood without the social aspect, nor can indeed the social, common, shared good be understood without economic logic.

A third voice opinion is that of Mr. Davis, Chairman of the Mckindsey Group, who recently touched on the problems existing between the shareholder and stakeholder value orientations (Davis, I., 2005).

Figure 5

Suggesting that the problem in the debate between the business and economic world and society needed a new management-centric orientation that would enable us to achieve the integration of a state of things presumed to exist between the economic and social worlds. He was talking of Rousseau's "Social Contract".
On one side of the current debate are those who argue that (to borrow Milton Friedman's phrase) the "business of business is business". This belief is most established in Anglo-Saxon economies. On this view, social issues are peripheral to the challenges of corporate management. The sole legitimate purpose of business is to create shareholder value.

On the other side are the proponents of "Corporate Social Responsibility" (CSR), a rapidly growing, rather fuzzy movement encompassing both companies which claim already to practise CSR and sceptical campaign groups arguing they need to go further in mitigating their social impacts. As other regions of the world—parts of continental and central Europe, for example—move towards the Anglo-Saxon shareholder-value model, debate between these sides has increasingly taken on global significance.

The Economist.com May 26th 2005 — The biggest contract

Figure 6

As can be seen in Figure 6, in recent years in Europe there has been an important change in business orientation and therefore in business culture based on predominantly shareholder value management concepts (a fact reflected by the Lisbon Agenda) that spanned the 90s. At present it is again being considered that this orientation does not facilitate business transformation processes and raises serious obstacles to European "reforms".

This leads me to the third strand of a new approach for business leaders. They need to shape the debates on social issues much more consciously. This means establishing ever higher standards of integrity and transparency within their own companies. It also means becoming much more actively involved in external debates and in the media on social issues that shape their business context.
As can be seen in Figure 8, the European context has traditionally had a stakeholder value orientation, an orientation that has predominated European culture and businesses and one which is at present in great demand. Therefore, Europe's management systems, culture and organisation tend increasingly to mark a more differentiated concept of businesses. One important problem is not to confuse a stakeholder value orientation in terms of the consensus in the regulatory sense that was established in 60s and 70s as "co-management", characterised by specific orientations towards national cultures which are seen as serious obstacles to change through legal reforms.

Fundamentally, globalisation requires a new form of the stakeholder concept. This new form involves the construction of networks as well as an increasing permeability of organisations (von Pierer, H.; Mirow, M., 2004). It is therefore an organisational form that is different to that of the 60s and 70s under the profile of the different laws or regulations established from a "classic" view of consensus (Lübbe, H., 1998). The "transformation" process must be shared not only in the business' internal dimension but also with all of the elements that constitute the external network of the business as a whole.
The Lisbon Agenda has attempted to create an orientation, a vision towards which the business organisation’s configuration must be directed within an economic and social order based on this new concept of networks, towards processes that are more decentralised and closer to the individual.

4. Corporate Culture and the Economic and Social Order

The vision proposed by the Lisbon Agenda does not correspond to the instrumentalistion with which, on paper, it was inadequately endowed trusting more in the "administrative system" than in individuals. Its failure over five years is, at all levels, from the Heads of State themselves to the individual citizens, due to the lack of the perception of orientation needed by this process and to the viability and sustainability of the transformation process. The results obtained in the referendum on the European Constitution in recent months have, for very different reasons, undeniably made it difficult to set this transformation process in motion.

Any dynamic for institutional change, the subject that is under discussion in this article, seeks a new way of structuring the configurational processes concerning the level of state intervention, in this case at both a state and European level and with regard to the level of decentralisation assumed by the different institutions acting on the transformational, operational line, such as business institutions, universities, etc. for example.
Figure 9 illustrates how the transformation process that we have been discussing corresponds to the dynamics of changing from one position to A, B or C, the new position where the business wants to situate its transformation. If the orientation is towards A, then the State, or, indeed the European Union, exercises a greater influence in the sense that there are more regulations and "administrative subsystems". If it wants to move to position B, this is the "corporate" dimension where the European Union and its States define the vision and principles but where the transformation processes are undertaken in an environment enjoying a high level of decentralisation between the institutions. This means a greater approximation to the individual who essentially is the person who has to take on board the positive expectations of the transformation and lend it support. When we talk of the individual, we are talking of people at all levels: the political, economic, social, business, academic level etc. The citizens, all of them, must be involved if Europe is to be transformed.

Choosing a position within this space, a space that has been legitimised by the European States' Constitutions, represents a new way of understanding this business dynamic from a positioning, orientational perspective with regard to the manner in which the transformation has been executed.
This is the result of the transition from a *closed society* to an *open society* in which the designs of all coordination-oriented institutions become permeable (von Pierer, H; Mirow, M, 2004). Institutions no longer have clearly defined, hermetic boundaries that generate bureaucratic designs as coordinating instruments and the relationships between them become much more fluid so that the search for new solutions to a more efficient transformation (*reforms*) is generated, thus reducing political, economic and social "coordination costs" (García Echevarría, S., 1998).

![Figure 10](image)

**Figure 10**

Figure 10 illustrates how globalisation significantly opens up European society. In principle, this is the *Lisbon Agenda*’s "vision". It therefore deals with the reduction of bureaucratic structures, not only as a consequence of a political decision (the Lisbon Summit) but also as a constituent part of the reality of an open society in which clearly-defined boundaries do not exist, a society where such boundaries become increasingly permeable with regard to different institutions such as the State, business, Academia, etc. This permeability arises from the creation of networks that integrate orientations, resources and people into the coordination processes. These then are open institutions with completely differentiated organisational forms.
This orientation towards the individual as a fundamental axis for elements of coordination and transformation (reforms) rests on changes in behaviour and a clear orientation, leading to increasingly important role for the *ethical dimension* in political, economic and social phenomena.

**Figure 11**

**KEY CRITERIA FOR INSTITUTIONAL PERFORMANCE**

**Figure 12**
Figure 12 aims to reflect the spatial dimensional corresponding to the basic economic and social criteria for transformation processes: firstly they affect the fact that scarce resources should be used efficiently from the perspective of their capacities and that therefore they contribute to a rational distribution of additional resources, new employment for example. Similarly they affect the social dimension, in other words social efficiency (García Echevarría, S., 1980) something that is demonstrated by a greater social stability under the perspective of prevailing social justice. This then is the Lisbon Agenda's "vision" (Kommission an das Europäische Parlamente, 2000).

As seen from the ethical dimension, the shareholder-stakeholder value debate, as one of the basic problems, has an effect due to the fact that it is univocally oriented towards verticality. This orientation has been roughly treated from the political and social perspective and it is with difficulty that from these two perspectives it is seen as just and subsequently accepted in an open society.

The difficulty arises from the fact that this orientation has led, in great measure, to a loss of confidence in the business world and consequently to an insufficient ethical dimension.
As Figure 13 illustrates, the loss of confidence in business institutions and in their leaders is on the increase and as a result the "coordination costs" for both businesses and society, are also rising, a situation that makes it difficult for those networks that reduce "coordination costs" to function in an open, globalised society. This reduction in "coordination costs" is in fact one of the aims of the Lisbon Agenda which seeks to reduce prices and therefore to improve both income and welfare.

It can be seen that the search for a greater commitment from the managers of a business through substantial modifications in the manner in which they are compensated has not solved the problem but has instead made it worse since the results do not correspond to the real world, as Figure 14 illustrates. With regard to directors' pay, management systems have become independent of the results of their contributions. Therefore, the generalised affirmation that there is a direct relationship between a director, results and compensation is not correct from either an institutional or management perspective.

Out of line
Pay and total shareholder returns

![Graph showing the relationship between CEO total direct compensation and S&P 500 total return.]

* Median for 350 of the largest US public companies

Sources: Mercer; Thomson Datastream

Figure 14

Occupying the space between compensation and results is the institution, the business, the corporation, the community of people who are the key to making possible the transformation that
contributes to results, to increasing income and to the sustainability of the results that depend on this institutional dimension.

Figure 14 illustrates the how the institution has been "neglected" especially in the very designs of management systems, management being the factor that truly makes transformation possible.

The key and the criterion to be applied is how to increase competitiveness, as all of the documents referring to the Lisbon Agenda (Issing, O., 2004) indicate. However, such competitiveness can only be achieved when it rests on the four following pillars:

- **Productivity must be increased.** In order to do this productivity must be interpreted from an ethical perspective (Utz, A.F., 1999) and as a result we must go beyond merely economic and business considerations.

### KEY ISSUES FOR COMPETITIVENESS

- **HIGHER PRODUCTIVITY**
  - Based on new concepts
  - Based on new ways of thinking
  - Based on customer/cost orientation

- **FASTER INNOVATION-GENERATING PROCESSES**
  - Depletion economic resources
  - Identification of core competences

- **FASTER GROWTH**
  - Globalisation of activities
  - Efficient change processes
  - Taking the customer into account

- **GREATER PROMOTION OF CULTURAL CHANGE**
  - New mentality
  - New way of managing people
  - Prime importance of organisational dynamics
  - Responsibility, risk and crisis capacity

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- A process of *innovation* is required so that the transformation can occur with lower coordination costs.

- *Growth* processes need to be undertaken, integrating everyone into a global system and;
a greater level of cultural change is needed to bring into being this new form of open society which will enable boundaries between institutions to be broken down and networks established that will simultaneously facilitate the application of specific resources and capacities to specific problems.

5. The Transformation of European Businesses: its Consequences and Opportunities

Undoubtedly, the Lisbon Agenda provides a "vision" that acts as a reference point affecting practically the whole economic and social ambit in all European States. Taking as its starting point aspects dealing with the labour market and with those concerning the occupation of the available human capacities, it enters into everything regarding the necessary transformation processes in order to make the "coordination costs" in a globalised economy more efficient. This therefore leads to the breaking-down of barriers between institutions that will allow a greater degree of permeability (Matías Clavero, G., 2005).

In an open society any process of change requires of necessity a basic measurement criterion, its fundamental indicator being competitiveness. As we will see later, competitiveness is not merely an economic fact – it is also an unprecedented cultural reality (Colina Robledo, M., 2004).

As can be seen in Figure 16, any process of institutional change involves the creation of two basic pillars:

- **Firstly**, a reduction in the role of the State – privatisation, in order to seek a new economic and social order.

- However, this must be simultaneously accompanied by a new organisation of the economic and social order enabling privatisation to contribute to the elimination of barriers, thus making permeability, with the aim of increasing competitiveness, between the different institutions, possible.
Privatisation *per se* is pointless if it does not simultaneously entail an improvement in *competitiveness*, in other words, it is futile if it does not involve the creation of *new values* in economic dynamics needing a radical change in the organisation of the economic and social order (García Echevarría, S., 1980). Any privatisation represents a *decentralisation* of the State’s activities and as such requires a new framework. *Competitiveness* is the response to both of the motors that of necessity drive socioeconomic change, giving rise to a new *business culture* that obliges businesses to transform so that they can adapt to the new circumstances created as a result of the modifications in the economic and social order.

This new *corporate culture* demands a new institutional design, a new corporation with new dynamic organisational structures yet at the same time, and most specifically, it forces a radical change in how a business is managed. Management is now oriented towards systems for managing individuals, with all that this significant institutional change implies. This new management orientation requires the development of one of the scarcest factors of all: a management capacity that encourages the search for new innovative responses to the growing and diverse needs existing within the context of globalisation.
The opening-up of society has a great impact on both the institutions and individuals involved (Lübbe, H., 1998). In institutions this opening-up has the specific effect of increasingly requiring a knowledge development process in order for them to have the ability to innovate (Reding, V., 2005). Today, innovation has become not only the benchmark problem of the Lisbon Agenda, but also economic and business reality. Innovation and leadership for innovation are two fundamental keys at the present moment in European business transformation. A new culture, the innovation culture, is challenging the classic, traditional administrative culture. This also entails a new way of understanding the cultural values that make us, as individuals, able to increase productivity and thus contribute to cost reductions.

The person, the individual, is the fundamental agent and is involved in a new pattern of behaviour that is increasingly oriented towards a continuous learning, knowledge development process. Simultaneously, and due to the fact the rigid barriers between the different institutions have been broken down, the individual must also work in networks, in teams, and act in an increasingly decentralised world where institutions are, in the economic context, increasingly permeable.

As was mentioned at the beginning, the rediscovery of the institution and the person as an individual are two fundamental elements in the division of work that globalisation has generated (García Echevarría, S., 1973).
The objective of this new economic-social framework that rests on *competitiveness* is the rational use of available resources leading to cost reductions, a fundamental element in the reduction of prices. This reduction in costs can only be achieved when stable *social values*, are established, when there is *confidence* in the future and in the institutions. Simultaneously, this *confidence* rests on the non-traumatic capacity of a *permanent process of change* based on the new knowledge acquired.

The *cost culture* is not predominantly based on the "price" of the factors but on the efficient use of capacities as well as the potentials available. This is a basic reference in order to configure transformation process in the economic and social organisation. It is not the "factors price" but the "use of capacities" and development of capacities, especially Human Resources, that is a priority issue integrated into the *Lisbon Agenda's vision*. 

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Figure 17

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**IMPACT OF GLOBALISATION ON THE ENTERPRISE**

**GLOBALISATION**

New division of work

**INSTITUTION**

New organisational design

**LEARNING ORGANISATION**

Knowledge

**CORPORATE IDENTIFICATION**

Culture-Value

**INDIVIDUAL**

Adapting cost

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25
Perhaps one of the most important problems in this economic transformation process is how the concept of competitiveness is interpreted (Lübke, H., 1998). Competitiveness involves the development of values on which individuals try to develop innovation and, simultaneously, use the available capacities and their potentials that are in turn permanently being updated.

As can be seen in Figure 19 there are three groups of values that enable greater competitiveness in a business, in an economy or in regions such as Europe, greater competitiveness being the Lisbon Agenda's objective. These three values groups are:

- **Firstly**, all of those values that affect the individual's development. Consequently, a permanent process of decentralisation is needed in order to give individuals space in which to adapt with the lowest costs and generate new knowledge. They will thus develop the potential that enables them to regard their own future development with confidence.

- **Second**, all of those values that affect the individual’s development. Consequently, a permanent process of decentralisation is needed in order to give individuals space in which to adapt with the lowest costs and generate new knowledge. They will thus develop the potential that enables them to regard their own future development with confidence.

- The **second group** of values is concerned with competences. In other words, the potentials available and all of the values that affect training and knowledge.
The third group of values represents the key to breaking down closed structures. This is the need for cooperation and the need for such cooperation to facilitate the permeability that all processes within an open society imply. Therefore this teamwork increasingly means the development of networks leading, fundamentally to an integrational, non-destructive competitiveness.

**INTERNATIONAL COMPETITION**

**Being competitive implies**

- Having cultural values that develop human strengths
  - freedom
  - flexibility
  - willingness to change
  - innovation
  - creativity
  - growth

- Having several skills and potentials
  - productivity
  - managerial skills
  - knowledge
  - permanent willingness to learn
  - global and strategic thinking

- Having cooperation capacity
  - working in networks
  - ability to integrate the other in the calculations
  - thinking in terms of contribution
  - promotion of differences

**Figure 19**

For it to be possible, this integrational competitiveness rest on two pillars:

- **Firstly**, all businesses must fundamentally seek a growing permeability in the organisation of its networks, achieving economies in elements that do not, of necessity, have to be different and sharing knowledge, capacities and resources with others.

- And furthermore the **differential factor**, that is often predominantly corporate and sometimes operational in its line. This factor is the very basis of the identity of either the product, group of products, of localisation or of the corporation. This differential factor provides a permanent economic dynamic with regard to the different institutions.
based on new ways of using the tools available and of empowering them.

![Diagram: Sharing, Network, Innovation]

This process of competitiveness requires that individuals be involved in *knowledge sharing* (Matías Clavero, G., 2005). Knowledge is one of the scarcest resources but it is only efficient when its use is shared. This network-based sharing, more decentralised than in traditional business culture, means that innovation becomes the end result of the contribution of everyone involved in the different processes and institutions.

6. The Conditions for Cultural Transformation in European Businesses

As has already been mentioned, the long, laborious transformation process in which Europe finds itself immersed occurs increasingly within a process of decentralisation and therefore the role of each institution, each business, and the manner in which these businesses and institutions are managed, are going to play an important part in the success or failure of Europe's transformation.

The problem of errors in management orientation during the 90s and, as a result, the generation of certain economic and social
criteria has not necessarily led to the most efficient use of the available capacities and potentials.

If we take as our point of departure the basis of economic business thinking which defines the *productivity ratio*, and which is one of the keys to Europe's development in order to respond to the challenge of competitiveness, we can observe that there is a need to change significantly the culture on which *management systems* and everything concerned with it, not only in the field of labour, but also the internal processes of business management itself.

![Diagram](image)

**Figure 21**

As can be seen in Figure 21, the productivity ratio that reflects the efficient use of scarce resources means that businesses are highly oriented towards increasing productivity by a more efficient use of resources (denominator) with regard to a lower use, or consumption of such resources. This involves consuming fewer resources and as a result it is hoped that the cost of factors decreases.

In recent decades the management methods employed to increase productivity have been predominantly oriented towards the productivity ratio's denominator with the aim of reducing staff, the tax burden and everything affecting the resources consumed. This *input* orientation dominates the foundations of management in all institutions, be they public or private and therefore in the search for
increases in productivity, one attempts to manage institutions based on methods of economising the consumption of factors.

There is not the slightest doubt that a more efficient use of the capacities and potentials of resources through better management provides a limited and partial response to economic efficiency. In the present transformation processes however, this is not the answer. These processes, these "reforms" go beyond mere management. They are putative, structural, processes of adaptation.

All transformation processes seek increasing levels of productivity through a better use of resources. The Lisbon Agenda talks of the mobility of resources – in other words resources should be used in the most efficient activities, as measured by output. In this manner, all business management processes will be oriented toward the numerator in the productivity ratio. This then is the background to the structural "reforms".

With or without innovation, the use of resources is going to entail two different manners of managing a business, of designing its organisation and of executing its management processes. Innovation, change and creativity are all elements corresponding to output, to the numerator, and they are essential elements, both in the private and public sectors, in the change of management orientation from input to output in order to create the conditions in which Europe can use resources more efficiently.

We must insist on the fact that this is an exquisite treatment of the non-wasting of resources but economic efficiency must, of necessity, be oriented towards output. Inputs are the means of obtaining a result and an improvement in their management does not demand "reforms"; it is purely a question of management. If however, business management does not take inputs into careful consideration, we will have a partial, indeed poor, and limited result of productivity and one whose scope in terms of time is not very far-reaching. It will not be sustainable and will be quickly exhausted. However, if we are output-oriented through a more efficient use of inputs, we will obtain stable, long-term growth.

All of the systems of measurement, of indicators and of management problems must be oriented towards output through the efficient use
of inputs. This then is one of the fundamental changes in management systems. This is the great cultural change for business.

In this context, and examining in greater depth the problem that has been presented concerning the change in orientation of business management and of its organisational forms as well as the way in which business processes are prepared, we must consider the other three fundamental elements of this cultural transformation process:

1. A clear orientation towards the future and therefore a strategic mindset instead of an administrative mindset (Pumpin, C; García Echevarría, S., 1993). One of the great problems of a closed system is that it is dominated by the Administration while in an open system, with its subsequent permeability between institutions, the basic need is for strategic thought that is oriented towards output and simultaneously output orients thought towards the use of capacities and resources.

Figure 22

Business strategy must rest on two pillars:

- The first pillar corresponds to the traditional idea of economies of scale seeking, via the dynamics of change and participation in networks, a large advantage in contributing
to the use of the available potentials and to the reduction of costs. This is Europe’s great opportunity.

- The other pillar is that each institution, each individual, must have differentiating, unique and specific characteristics that makes them useful to all of the others so that they are considered within the network as a fundamental element in the process. This differentiation is undoubtedly the fundamental factor in the growing importance of a "corporate culture" that endows the whole business context with a greater reputation and inspires greater confidence in it. This in turn generates behaviour and performance in individuals as a response to the needs and interests of the different groups of stakeholders.

**INSTITUTION AND ORGANISATION**

![Diagram]

**Figure 23**

2. The second fundamental key is the institution’s configuration as a basic element in the process of opening-up society and in the context of a "new corporation". The values system form the foundations on which the business’ choice of how to construct its "corporate principles" rest. In other words, the Company’s global dimension, its "corporate principles" are going to be the basis on which the individuals with a "strategic vision" of the future will become involved. At the same time however these people will contribute their
knowledge as a fundamental element for greater economic and social efficiency. This must be given an organisational response.

3. Networks will form the structure that has to be put into place for this *organisational change*, a process of growing permeability of the capacities and potentials of others (von Pierer, H.; Mirow, M., 2004). Strategically talking, such networks will enable us on the one hand to gain closer knowledge of both individuals’ and institutions’ differentiating factors while on the other the shared use of knowledge and resources will enable costs to be reduced systematically (Kommission der Europäischen Gemeinschaften, 2005).

**ORGANISATION STRUCTURE IN CHANGE**

The search for a transformation in European society implies change, which of necessity involves a large-scale rolling-back of bureaucracy and of bureaucratic behaviour, both of which form hierarchical structures, and even a rolling-back of costly centralised head office structures. Such a process requires a new corporate design such as the one mentioned above.

Institutions’ *reputations* and their *transparency* must not be interpreted in the traditional way though regulations. They must
increasingly rest on ethical values. Of necessity, regulations always demand closed systems or institutions so that they can be applied yet when systems are opened up and are penetrated by networks what is being specifically sought are the available uses and capacities. In such a situation, regulations would be extremely difficult to apply hence the increasingly large demand for confidence based on the ethics of individuals with regard to others and with regard to the common good. This new ethical dimension of the economy is, undoubtedly, an important aspect which lends support to the concept of "principles" instead of regulations to ensure the capacity to contribute.

The five basic principles of any cultural transformation process (Lübbe, H., 1998) are as follows:

- **Global thinking** involving a different way of thinking from the traditional, analytical, linear thinking. Thought becomes a parallel process in which all events contribute to a single reality.

- The discovery of potentials, but not only of one's own. This also involves the individual's capacity to pool not only his or her potential, but that of everyone else in order to use potentials efficiently within the context and meaning of universal productivity.

- The development of an economic mindset – and therefore of a greater appreciation of the fact that the economic use of inputs is a function of the outputs that are being pursued. Therefore the same consumption of factors has a different value, or "cost" according to their varying orientations towards outputs. This is the "mobility" signalled by the Lisbon Agenda (Issing, O., 2004).

- One of the fundamental elements with regard to output is its evaluation by the recipient, in other words the customer and those competitors who are also seeking the same customer. If there is only one identification of the client, then to all effects and purposes there is only one significant referent when determining the values and indicators necessary for
measurement. Input indicators have very low values and have to be relativised with regard to output and customers.

- **Strategic thought** or a future-oriented mindset, as opposed to a past-oriented mindset, is a basic element, demanding a radical change in the interpretation and explanation of how the processes of economic and social activity occur.

**THE FIVE PRINCIPLES OF MANAGEMENT**

- **GLOBAL THINKING**
  Consider consequences globally and assume complexity
- **KNOWLEDGE OF POTENTIALS**
  Improve the knowledge and use of scarce resources > creative processes
- **ECONOMIC MENTALITY**
  Know the economic aspects of resources/avoid wastage
- **REFERENCES TO CUSTOMERS AND COMPETITORS**
  Know the position
- **STRATEGIC THINKING**
  Future reference point

Figure 25

7. Institutional Recommendations and Changes in Behaviour

In the light of what we have seen up to this point, we can conclude with a series of institutional recommendations that significantly affect behaviour patterns of both institutions and of the individuals involved in the various political, economic and social scales. The recommendations are as follows:

1. Within the perspective of the economic and social order that makes up the reference framework of the Lisbon Agenda, knowledge and innovation are processes which in global terms cannot be planned in terms of “administrative” dimension although in terms of specific business institutions, criteria must be sought to nurture innovative efficiency.
What this economic and social order needs to stimulate society’s orientation towards knowledge and innovation, with the aim of modifying the preferences function of all citizens and of businesses, is the creation of a socio-political climate whose values allow for a profile that is oriented towards the significant importance of each individual and, subsequently, towards the greatest possible degree of decentralisation. An economic and social order that is capable of stabilising this framework and guaranteeing the development of the individual necessarily demands a greater degree of institutional cooperation within an open society. This then is the dilemma of European bureaucracy which, acting as a coordinating structure and as a determining element for regulations, closes institutions instead of opening them up.

2. From the knowledge and innovation perspective Europe must surrender a “larger European space” for knowledge and innovation to individuals. A European space which, fundamentally, sadly lacks the generation of values that involve a new vision of the future. There is therefore a need for open deregulated spaces within an ethical-economic framework where individuals are familiar with the conditions under which they can operate while enjoying a great degree of freedom and give [an almost] free rein to their creativity. To achieve this, it is increasingly necessary to foment transversal knowledge in the different organisations, such as the universities, involved. This in turn implies that new institutional and organisational forms must be generated. Such is Lisbon’s “vision” but not, however, its instrumentalistion.

3. With regard to the orientation of knowledge and innovation, what is needed is development that is increasingly oriented towards the individual who is the bearer of knowledge and who, given the requirements of permeability of institutions situated in a process of participation, also possesses values that involve him or her in cooperation. There is a need to generate a greater flexibility and more rapid organisational forms. Flexibility within a closed institution does not occur since in such institutions one structure is merely substituted.
by another. When we talk of flexibility we are talking of permeability, of transversality and therefore we are talking of organizational forms that can modify themselves with great rapidity in response to the corporate “principles” pursued.

The fundamental mission of “orientation” is to remove the institutional barriers to be found in the context of knowledge institutions such as universities, businesses etc. where innovation becomes unviable due to a lack of cooperation. As a result there is a need to promote the values mentioned in the previous paragraph by reducing the dominant role of the State and bureaucracies.

4. The corporate and organisational perspective must take into account the fact that the opening-up of institutions and their permeability as well as their transversality oblige the adoption of more open and participatory corporate formats, laying especial stress on the forms in which the corporate identity, together with the values that affect it in terms of reputation and transparency, become the dominant elements when formulating the principles under which action is to be taken.

5. The ethical dimension is one of the elements that is becoming increasingly important, illustrated by the “principles” that are replacing bureaucracy and checks from a material perspective. Given the need to use the potentials of other institutions and given their permeability, “principles” will become increasingly effective when compared with bureaucracy and other checks.

6. Thus proximity to the person as an individual is increasingly important. Leadership is the fundamental element of today’s organisational designs. All knowledge processes need leadership. In other words how innovation is led within a company or State within the European context is a fundamental factor. There is no doubt that political institutions are not the most suitable organisations to “govern” knowledge. Therefore the political systems that govern universities in terms of their organisational and
regulatory design, as well as all other aspects of their governance, cannot under any circumstances be claimed to be effective with regard to how knowledge within the field of innovation is employed.

The key is individual and institutional leadership from an organisational perspective, a leadership that has to provide new formats for the strategic control of innovation. Today, the problem of indicators is wide open and as such indicators need a new configuration in the immediate future.

7. Institutional transformation processes correspond to a change in values systems and hence, as has already been seen, the growing importance of the role of the individual in the development of knowledge. This change in the field of knowledge requires an innovation culture that has to be located within the new corporate and organisational formats and therefore one of the fundamental elements of the European Union should be an “action plan” to promote cultural change. Such a plan must not be based on intervention but rather on the establishment of value preferences to serve as a point of reference for each State when developing their action plans.

8. The individual’s orientation is the fundamental key in a knowledge-oriented society whose primary aim must be the development of the individual in terms of both knowledge and sharing-oriented value structures.

The principle values and rules must always be oriented towards the development of the individual and his or her willingness to share and therefore ethics are the cornerstone to transparency and confidence in order for the former to integrate into both the economic and social dimensions as well as into behaviour patterns and cultural changes. Where there is no development of the individual, there is no knowledge or innovation.

9. The strategic objectives of the Lisbon review involve the demand for a better orientation of European actions. Indeed, the detection of this error in orientation supposes the
demand to mobilise the great potentials and capacities available in Europe and simultaneously to simplify and clarify the objectives that have been pursued since they are valid references as a vision of the behaviour of individuals and the transformation of European institutions.

10. The great opportunities that are opening up for Europe concern the use of its available potentials and of tools for generating employment and achieving improvements in quality as well as, fundamentally, in knowledge and innovation, the two decisive factors for growth.

As a result, the basic preference impulses must be involved at a European level and in corporate form with regard to knowledge and its creation at an individual State level, seeking to reduce the barriers hindering the inter-penetration of institutions, for example between universities and industry, universities, universities and research centres etc., those institutions whose aim is to provide the stimulus for the advancement of technology.

The key lies in how to generate an innovation culture in Europe based on knowledge and how to learn to work in a single “European space”, space in which the full use of the capacities available will provide a systematic reduction in costs and consequently job creation.

8. Bibliography


