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THE FIRM IN SOCIETY
Keys to business success
(LA EMPRESA EN LA SOCIEDAD
Clave del éxito empresarial)

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Universidad de Alcalá



UNIVERSIDAD DE ALCALA



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THE FIRM IN SOCIETY

Keys to business success *

(LA EMPRESA EN LA SOCIEDAD

Clave del éxito empresarial)

Prof. Dr. Santiago García Echevarría

(University of Alcalá)

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Abstract:

The interrelationship between businesses and society is of increasing importance. From the year 2005 onwards, there has been an important change in direction in all of Central European thinking and in the business world resulting in the fact that the greatest demands made of a business is that its main aim is to respond to its society's needs for both goods and services and thence to obtain the results corresponding to this process. That a business succeeds or fails will depend upon its interpretation of society and upon its societal orientation or, as is mentioned, the fact that a business, or a businessperson will become a type of civil servant due to their lack of involvement in society.

La interrelación entre empresa y sociedad es cada día más relevante. A partir del año 2005 hay un giro muy importante en todo el pensamiento centroeuropeo y en la realidad empresarial de manera que la exigencia corresponde más a que el objetivo empresarial es dar una respuesta a las necesidades de esa sociedad en bienes y servicios y, a partir de ahí, obtener los resultados que correspondan dentro de ese proceso. De la interpretación y orientación societaria de la empresa va a depender su éxito o fracaso o, como se menciona, el que una empresa y empresario mute a ser funcionario a través de una menor implicación en la sociedad.

Keywords / Palabras clave: Firm, Society, Socio-Economic Order, Business Designs, Transformation / Empresa, Sociedad, Orden Económico-Social, Diseños Empresariales, Transformación.

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THE FIRM IN SOCIETY

Keys to business success

1. The present debate on the role of the business in Society

1.1. First thoughts

Any observer can see that the whole of the last decade has been peppered with great business successes within the framework of the opening-up of economies. There have, however, also been some great scandals that have had a great impact upon levels of confidence in the business institutions themselves and in those responsible for regulating the social and economic order. Independently of the gravity of such direct repercussions as job losses, capital losses and losses of opportunity, etc. society has undoubtedly suffered serious indirect consequences. Essentially, these *indirect consequences* correspond to a drop in **confidence** which leads to economies and the social dimension itself having difficulties in undertaking transformation processes, processes that have been the frequent subject of much debate for over a decade.

During the 1990s and in Europe as a consequence of the European integration process' evolution since the 1950s, the transformation process of closed economies to open economies accelerated. All of this has led to Europe enjoying one of the most flourishing periods in its history. This transformation process accelerated sharply during the 1990s within the context of economic globalisation in which a **national division of work** gave way to an **international** – or global – division of work¹, something that several institutions, and not just those in business, but also those in education, politics and society, have had difficulty in understanding and assimilating within the culture that has arisen since the end of WWII. Throughout history, international agreements have been reached and

¹ GARCÍA ECHEVARRÍA, S. (2006): "*La empresa en su entorno macroeconómico*", in: Conferencias y Trabajos de Investigación, ed. IDOE, University of Alcalá, num. 292, February, Alcalá de Henares.

international institutions created but never before has there been an integrating opening-up of large spaces requiring a new design of the ways in which the **economic and the social dimensions** are regulated.

Within a system of closed spaces and at a national level, the social and economic order does not, in most cases, have a response to the needs of a new international – global – order. This then is the reason for which over the last decade and in an increasingly worrying manner, the need has arisen for “*reforms*” in key aspects of society such as labour, competitiveness, education etc.

The “*financial*” aspect opens under its own impulse, creating within the same context serious problems such as the present global ones like as subprime loans. As a result of the *financial engineering* of the **Hedge Funds** such problems can arise at any moment. All of this process has a historical origin centred on the ENRON case and the consequences that this has had in the momentum in interventionist regulation to be found in several States. One example of this is the five years of history of the **Sarbanes Oxley Law** whose evaluation, after these five years, is a hotly debated question².

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Regulating business

The trial of Sarbanes-Oxley

Apr 20th 2006 | NEW YORK

From *The Economist* print edition

The corporate regulation brought in after the Enron scandal stands accused of making matters worse



Figure 1

² THE ECONOMIST (2006): “*Regulating business. The trial of Sarbanes-Oxley*”, April 20th, 2006.

Undoubtedly, all of the above has created in recent times a great **mistrust** since "*financial engineering*" has not been genuinely tied in with the creation of a social and economic order for open spaces that allows for greater efficiency in coordination and a greater transparency in processes within open spaces.

The mistrust that has sprung up in society gives rise to a troubling trend towards closer regulation. The abovementioned "*reforms*" are not undertaken or they decelerate with a correspondingly high cost, not only in economic and business terms but also in political and societal ones. As a result the national structures of economic environments remain in place and retain their power. These structures are without doubt large barriers in an order that enables integration between Europe's competitive capacity and its social cohesion, something that had already been noticed in Lisbon³.

At present there is a situation of doubt in the air, a situation of mistrust and of inertia that contributes nothing towards the creation of well-being and development of both individuals and of institutions.

Thus arise the questions of: "What can we do?" "What must be the lines to follow in the process of change, of transformation?" The answer is simple. We must recover the individual as the fundamental, essential key to these transformation processes. It is the individual who transforms situations by changing his or her values. In the process of recovering **confidence in institutions** that have been seriously eroded both the individual and the institution must become the generators of a confidence so needed by the economic and social dimensions. In this, however, we encounter two serious difficulties⁴:

³ GARCÍA ECHEVARRÍA, S. (2006): "*Does The Lisbon Strategy Demand a Cultural Transformation in European Business?*", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 298, January, Alcalá de Henares.

⁴ GARCÍA ECHEVARRÍA, S. (2006): "*Economía de Mercado y desarrollo de la persona: la gobernabilidad de las instituciones empresariales*", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 306, June, Alcalá de Henares.

- On the one hand these transformation processes are difficult to construct due in great part to a **short-termism** with regard to bad orientation and to the "*financial engineering*" where regulators, who must regulate without intervening, have failed.
- In an individualistic world where it is hard to find even the smallest receptivity towards "*the common good*" of "*social-issues*" as a basic component of a business strategy that integrates both, this has led to errors in business activity such as, for example, the failure of the Daimler-Benz-Chrysler merger as well as many others. We must not forget, however, such unprecedented successes within the business context such as Toyota and numerous other firms.

1.2. What is the present scenario of the social and economic order?

The future of an **open society** must be built upon the intersection where the business, in which the individual develops and where scarce resources are used to cover society's needs, and the contribution of an economic-business order, meet in a business environment that gives space to the **institutions** so that they can assume their responsibilities in a situation that will lead them to cooperate and become competitive thanks to the development of their educational, sanitary, labour organising competences, etc.

The German President, Herr H. Köhler⁵, has expressed on several occasions his belief that business success only occurs when a business can genuinely integrate into its strategy an environment that provides it with the space necessary for it to be effective in its use of scarce resources and, most importantly, its human potential. This constant reference by the German President to the constituent role of society in the world of business must be a vital element in

⁵ KÖHLER, H. (2007): "*El empresario en la Sociedad*", in: Documentos a Debate, ed. IDOE, University of Alcalá, num. 5, February, Alcalá de Henares.

educational systems as well as in the design of the *social issues* themselves and of their management systems.

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" Managing a business does not finish at the factory gates... almost everybody knows how much management owes to Society's framework conditions. Without political and legal stability, without public infrastructure, without social stability, without confidence in the future and without a feeling for the "common weal" a business has no foundations upon which it can build its success"

(Horst Köhler, German President)



Figure 2

The reflection that the 2000⁶ Lisbon Summit's scenario was for the following three years the point of reference for large European corporations while from a political-societal standpoint, the Summit was unable to reach the individual, is a piercing insight. This above all is because it is the individual who has to change his or her values system. It is the individual who is at the very centre of the intersection between a business and its environment and space must be given so that the individual takes on responsibility and, through cooperation, achieves drastic cuts in coordination costs while simultaneously introducing the innovative dynamic, an innovative culture that will enable Europe to respond competitively.

If we manage to make **economic logic** and **social logic** generate the value creation necessary to cover the economy's objectives which, within the economical ethical dimension are, as A. F. Utz⁷ perceptively indicates, *"to satisfy the individual and collective needs*

⁶ EUROPEAN PARLIAMENT (2000): *"European Council of Lisbon 23rd and 24th March 2000 – Conclusions of the Presidency"*, Strasbourg.

⁷ UTZ, A. F. (1998): *"Ética Económica"*, Unión Editorial, Madrid, p. 26.

of all the members of a society in order to achieve human development – to achieve, in other words, the ‘common good’.

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The aim of the economy is to satisfy the individual and collective needs of all of the members of a society in order to achieve human development – to achieve, in other words, the “common good”.

(Utz, p. 26)



Figure 3

The Lisbon Summit⁸ defined the circumstances in which it found itself in 2000 within the global context as it can be observed in the Figure 4.

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PROFILE OF THE LISBON ECONOMIC AND SOCIAL DESIGN

Determining Causes

- Globalisation
- Know-how
- Society's values and concepts

Process of Change

- Speed
- Knowledge infrastructures
- Innovation
- Economic reform /social welfare modernisation
- Educational system



Figure 4

⁸ EUROPEAN PARLIAMENT, op. cit.

Being this context in which there are, in essence, aspects that rest fundamentally upon the individual as well as defining the objectives that are to be pursued in the European context, as it is indicated in Figure 5.

STRATEGIC OBJECTIVES

- Competitiveness
- Dynamics of change
- Sustainable growth
- Social cohesion

Figure 5

In its day, the European Union opined that it could undertake the transformation process of people and institutions within the European and the global context in which it found itself through a series of systems. In 2007 the European Union began for the first time to reveal its perception of the process of change through its FP7⁹ programme. This essentially corresponds to four large chapters that attempt to give momentum by using large sums of money. These chapters are the following ones:

- A first program called "Cooperation" provided with a budget of EUR 32.000 million.
- A second program named "Ideas" provided with a budget of EUR 7.400 million,
- A third program called "People" provided with a budget of EUR 7.700 million.

⁹ EUROPEAN UNION (2007): ***"Seventh Research Framework Programme (FP7)"***.

- A fourth program named "Capacities" provided with a budget of EUR 4.200 million.

STRUCTURE OF FP7 PROGRAMME EUROPEAN UNION

1. "Cooperation / participation"	= €32,000 million
2. "Ideas, innovation"	= €7,400 million
3. "People, development"	= €4,700 million
4. "Capacities / installations"	= €4,200 million

Source: EU (2007) "Seventh Research Framework Programme" (FP7).



Figure 6

All of these delays and slowdowns in the transformation process of economies from closed to open economies have been highly conditioned by a debate which from an economic standpoint as well as from a social approach to the orientation and their governance systems is absurd, setting *shareholders* and *stakeholders* at odds.

Not only is all of this mistaken in the institutional approach and orientation, it has also had serious consequences because businesses, with their accumulated experience, have completely lost their corporate orientations and their orientations concerning how to advance the transformation processes that affect the millions of individuals, both within and outside the businesses, who are operating every day.

We had to wait until 2005 to see in Central Europe a light at the end of the tunnel of this absurd debate¹⁰ – at least it is a perceptible light – that has made it possible to begin to criticise the shareholder

¹⁰ GARCÍA ECHEVARRÍA, S. (2007): "*Shareholder y Stakeholders: la multidimensionalidad de la empresa*", in: Documentos a Debate, ed. IDOE, University of Alcalá, num. 11, August, Alcalá de Henares.

orientation, yet not in the sense that the *shareholder* does not have to have value created for him or her. This criticism is simply that business strategy is completely mistaken because one of the essential elements has been overlooked: that of *social issues*, a position that the President of the German Business Federation, R. Rodenstock clearly indicated¹¹, as can be seen in the Figure 7.

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"Economic logic does not mean that the business' responsibility may be limited to the principal objective of making a profit. Every entrepreneur would be well counselled not to overvalue shareholdervalue, but also to value the legitimate interests of other groups, of the other stakeholders", explained Randolf Rodenstock, Chairman of the Bavarian Business Association in a speech given to the Bildung Tutzing political training academy on 29th May 2007

(iw Forum – IdW Köln Nr 15/ July 2005 Randolf Rodenstock)



Figure 7

But the same could be said of Herr H. von Pierer, former CEO of Siemens' presentation¹², as can be observed in the Figure 8.

¹¹ RODENSTOCK, R. (2005): **"Wirtschaftliche Logia und soziale Verantwortung"**, in: Forum, Institut der deutschen Wirtschaft (IdW), num. 15, July, Colonia.

¹² V. PIERER, H.; MIRROW, M. (2004): **"Strategische im Praxistest"**, in: Harvard Business Manager, October.

From the current perspective two factors have discredited the shareholder concept. On the one hand the unilateral emphasis the increase of value has produced abuses which are not acceptable neither politically nor ethically.

Today the majority of CEO directs their efforts to considering the interest of all stakeholders.

(Von Pierer/Mirow)

DE

Figure 8

Or even that the prime mover of Daimler-Benz' transformation with the incorporation of Chrysler Herr J. Schrempp, who recommends that this error should not be committed, as can be seen in the Figure 9.

**"... the answer is clear, yes (must be competitive) this mean: we have to control the cost and increase productivity".
"Profitability is not everything", says Schrempp, who in the first years of his decade at the head of the company was strong defender of increasing value for shareholders and was oriented towards the principle of shareholder value. "Anyone who only thinks of short term maximizing of profit is not going to have any future satisfaction if he continues in this direction".**

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Figure 9

In terms of Central European culture, the need to design and orient the corporation, its management designs and business strategy to

the inseparable constitutionality of **economic and social logic** is clear. They are constituent parts and must be the elements upon which **business strategy** is built. It is this that makes the institution and generates the **confidence** needed by the institution. This, then, is the *brand* for greater transparency.



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.**



Figure 10

However this 2005 evolution, which can be interpreted as a highly significant sea change in Central European business thinking and in social and economic politics, occurs, or is referred to in the Anglo-Saxon world. The generic statement that the Friedman position of "*business is business for business*" is the key to a business' corporate orientation, to the design of all of its management systems and to the behaviour of all of its thousands of individuals, be they directors or employees, is contradicted by Prof Becker, Friedman's greatest disciple. Becker, also a Nobel Prize winner, states that "*social issues*" are also part of a business' orientation.

In a memorable article published in **the Economist**, Mr. Ian Davis, Chairman of McKinsey¹³, brilliantly examines this debate and posits that the existing *Corporate Social Responsibility* is not a "*social*

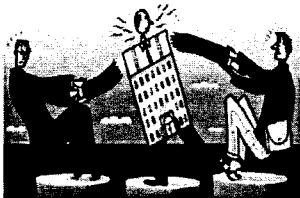
¹³ DAVIS, I. (2005): "*The biggest contract*", in: *The Economist*, March 26th, 2005.

issue". He clearly states that together with the economic situation, in terms of European economic logic, a company's business strategy has to integrate economic effectiveness with "*social issues*".

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



By building social issues into strategy, big business can recast the debate about its role, argues Ian Davis



Figure 11

In other words, this is what defines the institution and defines the individual as a corporate actor or operative within the business as a whole and it completely changes how a business is managed. He also clearly indicates that if a business does indeed have a real interest in defending its shareholders' interests, then it had better integrate "*social issues*" into its strategic design because many billions of dollars are involved, each dollar of which should be treated with care and respect so that both *shareholders* and *stakeholders* are inspired by the *brand's* capacity to generate confidence.

In the same way that serious "*financial engineering*" errors have been committed by separating it from a business' strategic context or from the economic and social order, the same is happening to the *brand*. "*Brand commercialisation*" is a great error. Essential elements in the construction of a *brand* are its confidence-generating individuals and institutions.

The German President¹⁴, Herr H. Köhler, raises this "social contract" to a business category. Mr. I. Davis indicates that the "social contract" is necessary if one genuinely wants to respond to the demands of *shareholders* and other *stakeholders*. The economy does not function when some lose and the others win; everybody has to try to reduce coordination costs so that everybody contributes with his or her own responsibility and cooperation and obtain the results that correspond to him or her. This is something that affects all social and personnel policies.

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EUROPEAN RESEARCH AND AREAS OF INNOVATION

"A business' competitiveness and dynamism depends directly upon the regulatory climate that motivates investment, innovation and the spirit of enterprise".



Figure 12

The "reforms", the vision of the Lisbon Summit's, cannot be reached through systems – and even less so by interventionist systems. They can only become reality through a far-reaching change in the values systems of individuals and institutions that take on the challenge of transformation based on their confidence in their own ability to develop and on the guarantee of an environment, an economic and social order that will give sufficient space for them to take responsibility and cooperate on their impressions of individual development and the contribution in terms of goods and services. It would be good to be constantly aware of the economy's aim in its ethical dimension according to A. F. Utz as mentioned earlier.

¹⁴ KÖHLER, H., op. cit.

We are confusing "*financial engineering*" and "*commercial engineering*" which is the real situation of business institutions and the manner by which the economy is able to generate value, thus creating the necessary confidence to enable "*talent*" and "*experience*" to contribute jointly to the development of individuals and institutions.

2. The impact of the socio-economic order on business and institutional designs

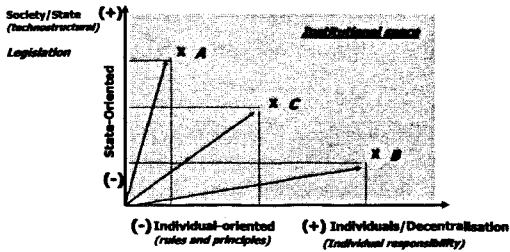
Like any other institutions, businesses require an economic and social order, an environment in which they have room to operate and freedom responsibly to select those economic and social options which are the most conducive towards institutional efficiency¹⁵. The institution needs to be able to position itself in a sustainable manner to face future challenges within a business context which at the same time allows it to cooperate with and employ the capacity provided by other institutions and processes, in such a way as to both facilitate higher productivity in each individual institution and also contribute towards a productivity ethos which will address the use of the community's dwindling resources.

Like all institutions, a business must exploit the confidence it enjoys in its own environment to be able to define its position within that environment. As can be seen in the Figure 13, if a business is in position A, with its freedom of configuration severely limited due to the excessive regulation of its operational space, the role of the individual as part of that institution is minimal. **Innovation** and **creativity** therefore only exist when there is no compliance with regulations. In contrast, if a business is in position B, with ample space in which to establish its own regulations regarding the assumption of responsibilities and cooperation as a means of achieving its economic and social objectives, then the individual plays a key role. A culture of innovation or creativity is only possible when business and other types of institution enjoy the freedom, within society, to implement corporate procedures which involve the obligatory exploitation of individuals' capacities to contribute to the

¹⁵ GARCÍA ECHEVARRÍA, S. (2006): "*Economía de Mercado...*", op. cit.

creation of added value through innovation and creativity, or indeed when those institutions are forced to implement such procedures¹⁶.

Institutional Change Dynamics



-Governance of institutions = depending on their position
 -Integration / participation / motivation = depending on their position

Figure 13

When the economic and social order, in its different regulatory manifestations, diminishes the role played by the business or the institution it therefore reduces its capacity to innovate and to create, because the institution as such is unable to provide individuals and teams with the space they require in order to be creative¹⁷. It then follows that all economic and social order solutions aimed at efficiently exploiting the potential of individuals and material resources must provide responsible freedom to enable the assumption of economic logic and social cohesion in such a manner that those corporations which are capable of success will make progress while those which are not will fail. But nothing is done by substituting the issue of the regulatory social logic which makes the development of the economic logic practically unviable¹⁸.

¹⁶ GARCÍA ECHEVARRÍA, S. (2006): ***“Ética y globalización: su integración e institucionalización”***, in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 304, May, Alcalá de Henares.

¹⁷ KÖHLER, H., op. cit.

¹⁸ EUROPEAN PARLIAMENT, op. cit.

However much the freedom and the space available may fluctuate, the roles of the different individuals visible in the various levels of a *culture of innovation* and *competitiveness* are clearly distinguishable. There are broad sectors, highly regulated in their own public management, which can never be **innovative** or **competitive** for the simple reason that in such institutions the potential of individuals cannot be exploited because they are not given sufficient space to allow them to apply that potential, either individually or in cooperation with others.

This is the great issue facing all the reforms currently pending. The problem of economic and social order therefore basically affects the role of individuals in institutions and the development of the institutions themselves. As Herr H. Köhler¹⁹, the German President, has pointed out, without an efficient environment business success can never be possible because the mechanisms by which available human resources can be employed are not set in motion and the cultural contexts which facilitate personal development are not generated.

Once an institution's or a business' position within society has been defined, the next step is to establish what type of corporation, in that position, is the most efficient in employing its capacities and competences in such a way that its strategy corresponds to an *economic logic* oriented towards the creation of value and a *social logic* oriented towards the integration of "*social issues*" which, within that strategy, are capable of differentiating the institution in order to make it highly competitive.

¹⁹ KÖHLER, H., op. cit.

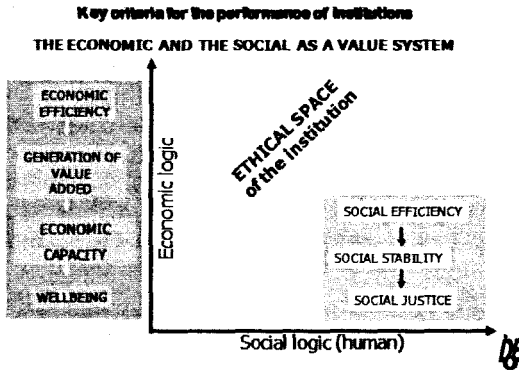


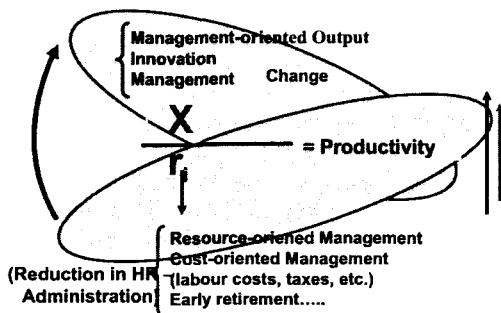
Figure 14

The result is corporate positioning defined by the economic and social values which determine the corporation's *brand*, which are ensured or limited by the cultural changes necessary throughout the process of transformation, which affect decision-making and which constitute the institution's own model of management. This is the **business philosophy** which integrates the economic and social elements which will at the same time define the range of products and services in which the business can be most efficient, taking into account its position in society and its own corporate structure, in such a way as to allow the *performance* of the management system to become highly efficient with minimum coordination costs.

The management model, as shown in the Figure 15, therefore corresponds to one aspect of the basic model of economic thought: **productivity**. The key issue is the efficient use of scarce resources, and the subsequent relationship between product and resource-consumption. If the highly regulatory management model aims at improving resource use resulting from, for example, the impact of the competition, this leads to a denominator in which the individual becomes a "*cost factor*" and the adjustments made in transformation processes are subsequently based on cutting costs. It is therefore an example of denominator-based business management. In an open society, an open economy, a position in society in which the business has room in which it can responsibly compete through cooperation

with others, the orientation must necessarily be towards the numerator. The individual, rather than being a "cost", represents the business' capacity to innovate and create and the means by which the business can address results fundamentally through human behaviour.

Rather than by resources, success or failure is determined by results and the appropriate orientation of results to the objectives which correspond to the corporate decision concerning the logical-social positioning of the business, in which the good use of scarce resources makes it possible to achieve the desired success.



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Figure 15

Transformation is the change from a denominator-oriented management model to a numerator-oriented management model. That is to say, it involves the discovery of the individual, and the subsequent discovery of the problems of teamwork, personal training and development. It also reveals another perspective of where the business' real potential lies, and therefore represents a radical change in the understanding of the business concept itself²⁰.

²⁰ GARCÍA ECHEVARRÍA, S. (2006): "*Liderazgo y estrategia en la empresa – Los nuevos enfoques empresariales*", in: Temas

The economic order must accommodate this process of transformation from the denominator to the numerator and the company, in its corporate design, its *brand*, must orientate itself towards the integration of both, as stated by the Chairman of McKinsey, Mr. I. Davis, in the debate over *shareholder* versus *stakeholder value*²¹.

Transformation involves change to the entire *performance* of the business, both from the instrumental and functional points of view.

If there is no sustainable economic and social system which can guarantee the process of making space available for businesses and institutions to be able to choose the positioning in which they are corporately better placed to exploit their potential and to generate a **culture of innovation and competitiveness**, the business cannot be expected to solve its problems. It is not therefore possible, for example, to talk of business ethics if there are no economical ethics associated with that economic and social dimension: the dimension which must responsibly assume how much space can be ceded to individual institutions, which is made up of the civil society in which individuals and institutions must develop, and which guarantees a sustainable, growth orientation ted future to meet the vital and cultural requirements of society. This is where A. F. Utz²² definition of the objectives of the economy takes on its true importance.

And this is the great problem of the "*regulators*" which appear in oligopolistic organizations which, as economies open up, constitute new phenomena which are not efficiently coordinated²³. This is the problem which affects European energy, communications, services and many other areas, all of which have yet to be addressed in order for the millions of inhabitants of a Europe which is, with regard to talent, very strong, to be able to set in motion their capacity to be

recurrentes en Economía, ed. J. E. Fernández Arufe, Consejo Social de la Universidad de Valladolid, Valladolid, pp. 81-131.

²¹ DAVIS, I., op. cit.

²² UTZ, A. F., op. cit., p. 26.

²³ HOMMAN, K. (2007): "**El programa ético de la economía de mercado**", in: Documentos a Debate, ed. IDOE, University of Alcalá, num. 10, July, Alcalá de Henares.

managed from a numerator-oriented perspective rather than from a denominator-oriented perspective, an approach aimed at results and the efficient use of scarce resources to obtain those results.

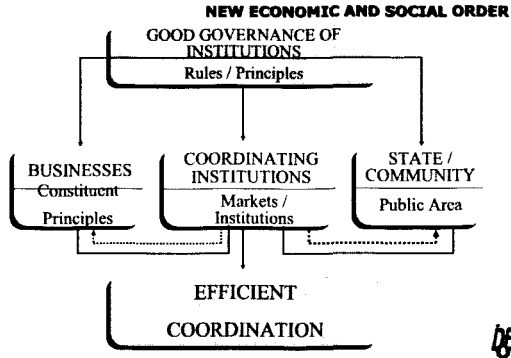


Figure 16

Beyond mere issues of legal and political security, this is a question of the *confidence* generated when institutions are allowed the freedom and the space responsibly to assume their own organization, exploiting their capacity for internal and external cooperation to produce good corporate management. As indicated by Mr. I. Davis²⁴, the *Corporate Social Responsibility (CSR)* is just one consideration and does not represent the cornerstone of this role of cooperation between the economic and social dimensions which must be integrated into a business' strategy in order efficiently to facilitate its good management and its contribution to society²⁵.

A business' sustainability and growth do not depend only on the effort exerted but also on whether or not it enjoys an environment

²⁴ DAVIS, I., op. cit.

²⁵ GARCÍA ECHEVARRÍA, S. (2006): "**Responsabilidad Social Corporativa. La responsabilidad social corporativa como orientación del management empresarial**", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 303, April, Alcalá de Henares.

which enables and obliges it to implement a transformation which will bring out all its human potential, generate a culture of innovation and competitiveness and respond to its own vital and cultural needs.

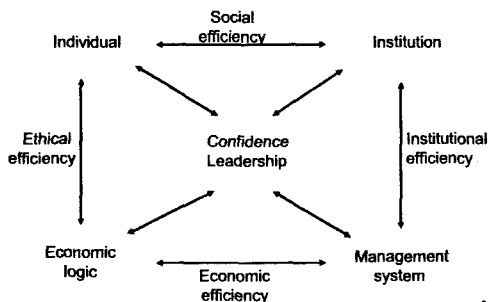
3. Demands upon business designs: their economical and ethical dimension

An institution or business in an economic or social environment which facilitates corporate development and the assumption of its own economic and social responsibility as part of its own strategy design basically has the following requirements:

- To ensure **cooperation**, firstly within the business itself but also with the environment in which it operates in order to employ available internal and external capacities, the potential which will help that business to discover the most efficient range of products and services for its particular positioning and management capacity.
- To ensure the **development of individuals**, seeking out "*talent*" and generating a culture of innovation and competitiveness which will allow the business flexibly and rapidly to undergo transformation and adapt to the new changes present in the environment at the least possible cost.
- To develop a source of **innovation and competitiveness** in *middle management*, which undoubtedly constitutes one of the great unused potentials of our businesses. This *middle management* has become bound up in routine, bureaucratic processes, and has not been given the space which will truly enable it to innovate and create the conditions under which the business' competitiveness can be assumed. Here, the capacity of *middle management* can bring about quantitative leaps in productivity. More attention should be paid to the training of middle

managers because they are the main driving force behind business innovation²⁶.

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Figure 17

Every business needs an institutional space which will enable it to adapt internally and which is not conditioned by excessive regulations which impede the use of such space. But **individuals** – both the business' own personnel and its customers, suppliers or others – also require space in which to be able to **cooperate** and thus contribute to the development of the different institutions. **Cooperation** and **participation** constitute one of the fundamental elements within the process of **competitiveness**²⁷.

The key issue is therefore **confidence**, insofar that this is the factor which creates the possibility of dialogue, and this must act in four spheres:

- **Economic efficiency**, involving the interrelationship between economic logic and the management system. The management system is not neutral with regard to productivity and

²⁶ WILDEMANN, H., (2007): "**Das Mittelmanagement is dran**", in: Faz, num. 257, November 5th, 2007, p. 24.

²⁷ KÖHLER, H., op. cit.

competitiveness. On the contrary, it needs to be oriented towards an economic logic integrated with the social logic in order to be able to identify the most efficient management system for strategically realising the full potential of the business and its environment.

- **Social efficiency**, corresponding to the interrelationship between the individual and the institution: that is, that dimension which *generates confidence* and an atmosphere conducive to processes of *innovation* and *competitiveness* when the individual brings his/her potential to bear in a community, in a *social dimension* which he/she shares and in which he/she believes.
- **Institutional efficiency**, corresponding to the relationship between the management system and the institution itself. Management systems are specific to each institutional design depending on the *system of values* towards which that institution is geared in its *business philosophy*. Any change, alteration or inefficient use in management systems therefore implies a cultural change which may seriously jeopardise the strategy of the business itself and its range of products and services. Business leaders frequently fail to recognise the impact of deterioration in the management system or the neglect of certain aspects, and this can lead to the business having very serious difficulties in its transformation process.
- **Ethical efficiency**, corresponding to the relationship between the individual and the economic logic: that is, the role played in this process by the individual with regard to the group in terms of the efficient use of scarce resources both inside and outside the business. In other words, this is the productivity problem.

The interrelationship between these four efficiencies provides an institution's backbone, the *brand* which enables it as an institution to lead the field in a competitive environment in such a manner that it will quickly seek to carry out transformation processes without excessive coordination costs. This design is based on the definition of its **systems of values**, once the business has positioned itself in that environment. If the environment changes and subsequently alters the free space available to a business, then the management system is no longer valid and must be modified, with all the great obstacles which will be caused by the associated *cultural changes*. Requirements pertaining to competences and responsibilities will undergo substantial alterations in one direction or another, in line with the specific circumstances.

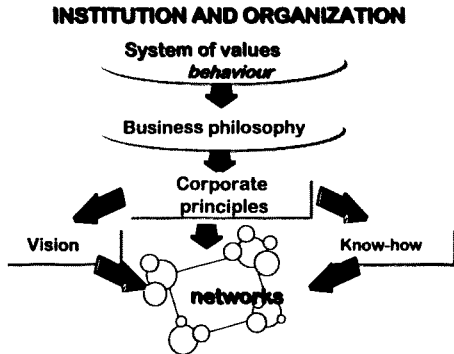


Figure 18

This system of values is stabilised by principles which form the basis for the management model and which involve two key elements:

- Firstly, the **vision** which endows the institution with sustainability and ensures its future viability by generating confidence, its own "*brand*", and
- Secondly, the **knowledge** and available **competences** which, together with an appropriate orientation and in accordance with that vision, will make growth possible.

This requires coordination and organization systems which will exploit communication and cooperation between individuals. These may be hierarchical systems or matrix systems, as shown in the Figure 19.

CHANGING ORGANISATIONAL TYPES

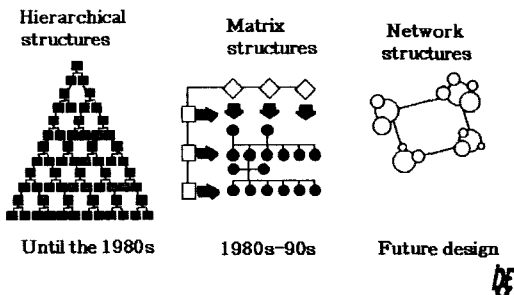


Figure 19

All this makes it ever more necessary to implement an organizational change more oriented towards individuals who will assume responsibility and cooperation as fundamental steps in the creation of a culture of innovation and competitiveness as guarantor of the sustainability of their institutions.

The five basic principles which should govern all business processes are:

- Firstly, a global philosophy as a basic point of reference which will sustain the *brand* and endow it with a *sense of belonging*.
- Secondly, the discovery of those internal and external potentials which will make it possible to design a basic vision of the strategy to be followed.
- The economic logic should be perfectly assimilable as part of the values of individuals, the *social issues* having been strategically integrated.

- The basic point of reference with the environment is the *customers and competitors*. These also provide benchmarks against which the demand of suppliers and public opinion can be measured, and consequently constitute a basic principle.
- In an open economy, future orientation is the key to every decision, to have a reference for the transformation process.



THE FIVE PRINCIPLES OF MANAGEMENT

- **GLOBAL PHILOSOPHY**
Consider the consequences for the business as a whole and dare to assume complexity
- **KNOWLEDGE OF POTENTIAL**
Recognise and make better use of the scarce resources which are available → creative processes
- **ECONOMIC MENTALITY**
Recognise the economic dimension of resources and avoid all waste
- **A POINT OF REFERENCE FOR CUSTOMERS AND COMPETITORS**
Be aware of the situation
- **STRATEGIC THOUGHT**
Future point of reference



Figure 20

4. Proposals for business and institutional transformation processes

There can be no doubt that the key element in transformation processes in businesses and institutions is the individual. It is the individual who, within the context of cultural change required by all processes of transformation, constitutes either the brake or the driving force behind the process of change which, in turn, implies a new corporate design and a renewed system of values. If the corporate project is not appropriately designed as a social community, it will be difficult for the individual to gain **confidence** regarding the stagnating institutional context which has led to the current situation of change. All transformation processes must therefore be preceded by a corporate level review of the business'

position in society and by a new global philosophy. If this process is not carried out, the individual will not acquire the confidence in the institution necessary to be able to carry out the process of change. The space which is so necessary to the individual as a means of self-transformation, may vary in nature – it may be technological²⁸, economic, social, political or administrative²⁹ - and it is therefore important to know the extent of its impact, because the business has to operate there in order to transform its strategy and identify the obstacles which it may have to face or the impulses on which it can count to bring about that change in as short a period of time as is possible with the greatest amount of flexibility and the least cost.

But the design of a new institution also implies a new configuration of the social dimension - the **institution** itself, which must subsequently provide the basic support, the *brand*, towards which individuals may orientate their change of values and attitudes during their day-to-day performance, precisely because they consider themselves capable of making a major contribution to the creation of that new dimension within the business.

To this end, institutional design requires two important supports:

- Firstly, **innovation** must be carried out as a manifest process of change in all areas. This must occur, for example, in the review of the product range, in the design of the business' own strategy and, particularly, in the design of management systems which prioritise the availability of space for individuals or groups of individuals to form work teams which will enable them to transform their potential into innovative initiatives, and
- Secondly, this process of change must have **leadership**. And there can only be a leader within the social context

²⁸ BROCKHOFF, K. (2005): "**Technological Change and Corporate Governance**", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 301, December, Alcalá de Henares.

²⁹ GARCÍA ECHEVARRÍA, S. (2006): "**Orden económico-social como marco de la transnacionalidad empresarial**", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 293, March, Alcalá de Henares.

of the **institution**, which should be the basic support for transformation. This disregard for the **institution** and for new **corporate designs** has led in the past and will lead again in the future to the failure of many mergers and conglomerates in which the institutional dimension has been totally neglected and only the product range dimension has been taken into consideration. It is not possible to exercise leadership if there is no institution, no sustainable social dimension, and if the conditions do not therefore exist for the creation of a social cohesion which may generate confidence³⁰.

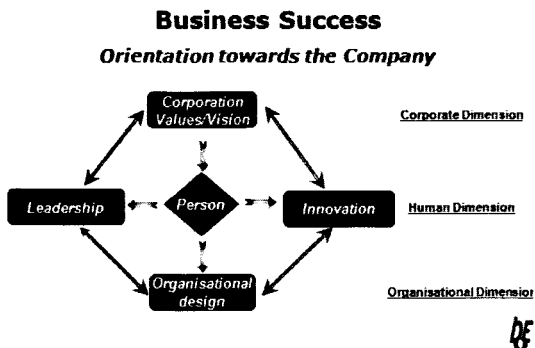


Figure 21

These three elements – **institution**, management process **innovation** and **leadership** – are the components used to design an organizational structure in which individuals have sufficient space in which to become involved and ensure the stability of change as that change takes place, while also guaranteeing the sustainability of the institution and the processes in which it is immersed.

³⁰ SÜDEUSCHE ZEITUNG (2007) (Eds): *"Wir waren uns so frem wie zoll und Zentimer"*, May 15th, 2007.

The key to everything else is that the *strategy of the process of change* must appropriately integrate both the *economic logic* and the *social logic in order to ensure the involvement of society, other institutions* and the business' own personnel in bringing about that process of transformation. One of the most important aspects is the need clearly to readdress the efficient use of available individual skills in such a way that routines, Information and Communication Technologies (ICTs), play a greater role³¹.



- 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**
 - Decisive economic resources
 - Identification of core competences
 - * **FASTER GROWING**
 - Globalization 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 organizational dynamics
 - Responsibility, risk, and critical capacity

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Figure 22

The institutional and cultural reference should be based on the following four key points:

- The use of **available potential**, a **rise in productivity** as one of the most important factors, so that, thanks to innovation, individuals see that the institution's new *brand* has the strength to bring about a better use of available resources.

³¹ GARCÍA ECHEVARRÍA, S. (2006): "*Impacto de las Tecnologías de la información en los nuevos diseños empresariales: una aproximación empírica y propuestas de cambio*", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 295, January, Alcalá de Henares.

- The need for **new, innovative ideas** aimed at the better use of the business' and its personnel's competences.
- **Sustained growth**, leading to future **expectations** which will allow the new coordination costs to be assumed efficiently, and
- A **business culture** which reflects the capacity of the social dimension to involve individuals in the process of change at the personal level.

The **strategy** will be successful if it really does have a cultural support. This change requires time, but it also needs, firstly, a new *corporate orientation* and much more efficient support for the management model, to provide space for individuals to develop a trial by error culture which will enable them, as soon as possible, to start assuming responsibilities and will also achieve greater **cooperation** and **participation** by individuals in the process of change³².

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Clearly there is more to good management than hiring the best and the brightest. Among other things, it requires rewarding experience as well as talent, and applying strong ethical codes and internal controls. Indeed, talent-intensive businesses have a particular interest in maintaining high ethical standards. Whereas in manufacturing industries a decline in such standards is often slow, in talent-intensive ones it can be terrifyingly sudden, as Arthur Andersen and Enron found to their cost.

Source: *The Economist*, October 5th, 2007.

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Figure 23

³² GARCÍA ECHEVARRÍA, S. (2007): "**Cultura e Innovación como marco de la participación en la empresa**", in: Conferencias y Documentos de Investigación, ed. IDOE, University of Alcalá, num. 311, June, Alcalá de Henares.

This institutional support undoubtedly lies in **leadership**, the ability to supervise both talent and areas of technical competences. But talents generally lack the other components which correspond precisely to that social dimension. They are not, as is often the case today, merely skills which can be acquired but rather means by which individuals can develop in the context of a corporate institutional dimension towards a social dimension which makes leadership³³ possible. They are not mere skills, but form part of the integration of the economic logic and the social logic in the corporation's strategy. And they are not mere technical or instrumental extras, but an important aspect within the context of a global business strategy. Individuals need a global philosophy which can generate an orientation for the design of criteria with which each individual may discover the environment in which he/she can best develop his/her talents. If there is no global philosophy, there can be no talent because there is no individual and no institution.

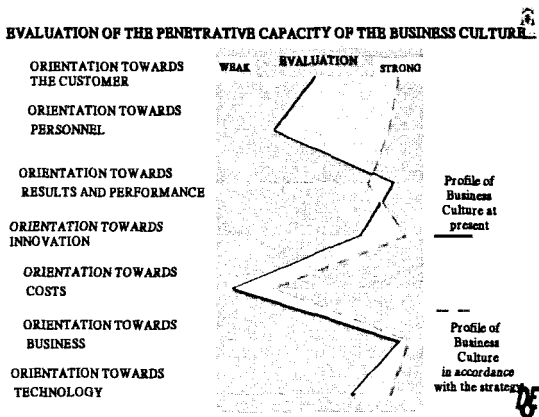


Figure 24

A second important aspect is how to solve the *intergenerational* problem in higher and middle ranking management and among personnel. Grave errors were committed in Europe in the 1990s,

³³ THE ECONOMIST (2006): "The battle for brainpower", October 5th, 2006.

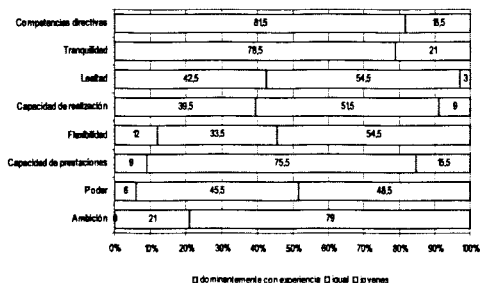
when not enough attention was paid to the intergenerational dimension. The result caused serious damage not only in the economic logic but also in the social logic and in the institutional dimension *per se*, and unnecessary fractures were created. Individuals must be given space to be able to build the bridges between talent and experience which will facilitate that continuity without negatively affecting the capacity to innovate. As can be seen in the Figure 25, there is a clear bridge situation which allows the structuring of generational institutions.

And the change in values, as can be seen empirically, has today changed radically. More than 75% of young managers are quite prepared to bring individuals with extensive experience into their teams. This greatly enriches that talent which is lacking in experience and a global dimension. The intergenerational problem is therefore one of the crucial issues in the present situation. Here, the economic and social order, pension schemes and retirement policies have exerted an extremely destabilising effect. They have been based on concepts which have not been geared towards individuals but towards the problems involved in the financing of pensions. It would be wrong for the economic and social order, the environment, not to allow the individual and the institution, the business, sufficient space in which to set in motion the strategic processes appropriate to each specific situation and, considering global contributions, to provide a satisfactory solution.

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3.3 PROFILE OF YOUNG MANAGERS VERSUS EXPERIENCE



Source: Madrid 4.0 Group - Wirtschafte Woche



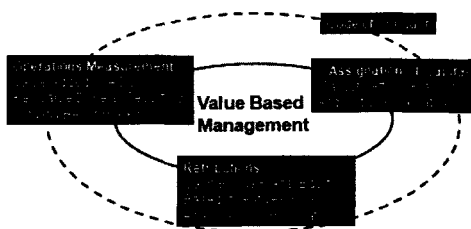
Figure 25

A third important aspect is the **management model**. Management models must be geared towards measuring the creation of value thanks not only to the economic logic but also to the social logic which has to be included in the economic calculations which form part of the strategy. The appropriate management model here is *value based management*, involving the measurement of how much is contributed to the economic logic and the social logic by each individual or group. This enables another, totally different type of dialogue, including those "*social issues*" not as momentary considerations concerning a few specific aspects but as real dimensions within the business strategy.

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Value Based Management (VBM)



Fuente: Hostettler & Partner AC

Figure 26

Fourthly, one of Europe's great strengths at present is its **middle management**: those middle ranking executives today embroiled in routine and weighed down by bureaucracy who must be released, through the use of technology, to be able to carry out the innovation and leadership oriented tasks which are their real duties. Until now this sector has been neglected, and deprived of motivation, care and, above all, training. Throughout Europe, the great potential capable of bringing about a radical change in productivity lies in the better use of *middle management*, a sector which constitutes the forgotten dimension in the context of business management, both in

terms of its training and with regard to the importance to the business of how middle managers are organized and included in the institution.



Figure 27

5. Bibliographical notes

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La filosofía y los objetivos del IDOE se desarrollan en actividades que se apoyan en la colaboración internacional y el mundo empresarial con el ámbito universitario, sirviendo de engranaje entre el ámbito científico universitario y el mundo directivo-empresarial.

El IDOE imparte programas de postgrado en colaboración con empresas e instituciones internacionales de reconocido prestigio. Desarrolla proyectos de investigación en materias de economía, dirección empresarial y dirección de comunicación. Así mismo imparte programas de pregrado con el fin de acercar el conocimiento empresarial a los estudiantes además de desarrollar programas de formación para jóvenes directivos.

El objetivo que pretende con sus publicaciones es difundir, en un lenguaje sencillo, los nuevos conocimientos y desarrollos entre el mundo empresarial y el mundo universitario, a nivel nacional como internacional.

Para ello el IDOE ha desarrollado sus publicaciones dentro de las siguientes colecciones cuyas aportaciones provienen del entorno académico y del mundo empresarial:

- Working Papers:
 - Serie Azul (Política y Estrategia Empresarial): 316 números.
 - Serie Roja (Documentos Docentes): 104 números.
 - Serie Marrón (Conferencias): 5 números.

- Informes y Dictámenes: 18 números.

- Documentos a Debate: 17 números.

- Libros.
 - Serie Política Empresarial.
 - Serie Management.
 - Serie Universitaria.

- Revistas.

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