iDE

Instituto de Dirección y Organización de Empresa

The impact of globalisation on the configuration of business institutions: Fron corporate design to leadership

Prof. Dr. Santiago García Echevarría
Universidad de Alcalá de Henares

UNIVERSIDAD DE
ALCALÁ

The impact of globalisation on the configuration of business institutions: From corporate design to leadership

Prof. Dr. Santiago García Echevarría

Author: *Prof. Dr. Santiago García Echevarría*

Abstract:

Today the institutional dimension to the corporate element as the expression of the confluence of the various stakeholders' interests is the key to the new configuration of businesses and their organisation. The dynamics of the opening-up of company systems in both economic and social terms involve drastic changes in how institutions are conceptualised, seeking the orientation that will make it possible for the individuals involved to assume responsibility. The growing demand for a new type of leadership is the key to all of this process of institutional change.

La dimensión institucional, "lo corporativo", como expresión de la conjunción de intereses de los diferentes stakeholders constituye en los momentos actuales la clave de la nueva configuración de las empresas y de sus organizaciones. La dinámica de la apertura de los sistemas societarios, económico y sociales implica cambios drásticos en la conceptualización de las instituciones, buscando aquella orientación que haga posible la asunción de la responsabilidad por parte de los individuos involucrados. La creciente exigencia de un nuevo tipo de liderazgo constituye la clave de todo este proceso de cambio institucional.

Index

1. Introduction: a global vision

1.1. Trust and institutional dynamic

Nobody has failed to notice the erratic orientation of management during the 1990s and the early years of the first decade of the new century. This situation has given rise to business errors and has caused highly questionable actions with grave consequences for many businesses. Simultaneously in many countries it has resulted in a deep change in values within the business culture itself and a growing mistrust within society towards the world of business.
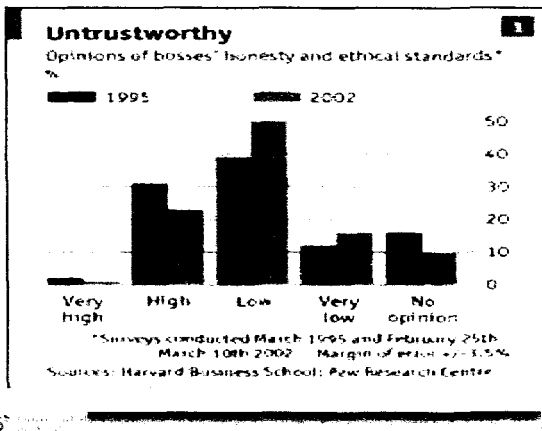
Figure 1

This erratic situation, lacking in orientation, within the business world has had an effect upon many different types of economic, legal and problems, all of which are highly important for both businesses and people. This has also particularly affected all of the different types of *management designs* and the behaviour of the upper management of businesses. Examples, most of which are errors of a strategic nature, others being due to an erroneous management design system, are universally known and are to a certain extent provoked by ethical problems. These have given rise to a dilemma in the

1

business world in which many governments seek to impose new regulations, especially with regard to business governance[1]. What is now being sought is a way to counteract this tendency by setting in motion new forms of *self-regulation* which are condensed into such phrases as a *business' corporate social responsibility* and similar terms[2].

Institutional change dynamic
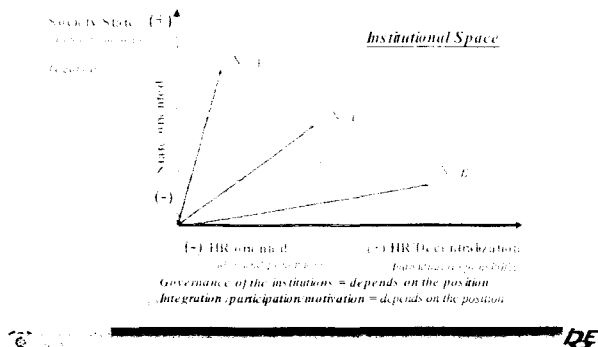
Figure 2

Figure 2 illustrates the space in which this trend for change is located. This institutional space is defined by the greater or lesser role played by the State in orienting institutions and the greater or lesser propensity towards the decentralisation of these institutions. The choice of alternative within a legitimised institutional space within institutions in the European countries is today's dilemma. The position adopted by governments towards businesses, executive pay, etc. for example.

---

[1] See The Economist (2003b): "*How to run a company well*", 23.10.2003.
[2] See the excellent exposition of Ian Davis. Davis, Ian (2005): "*The biggest contract*", The Economist, 26.05.2005.

Cardinal Lehmann[3] has produced an excellent examination of the dilemma of what this new balance between individual self-responsibility and "solidarity" means.

The growing openness of economies and globalisation has led to a historically vertiginous rate of institutional change, not only in the field of technological change, which itself is unprecedented in economic history, but also in the fact that it has enabled different economies to draw closer together, new potentials to spring up, thus creating situations in which the problems of competition, responsibility and reputation need new institutional dimensions.
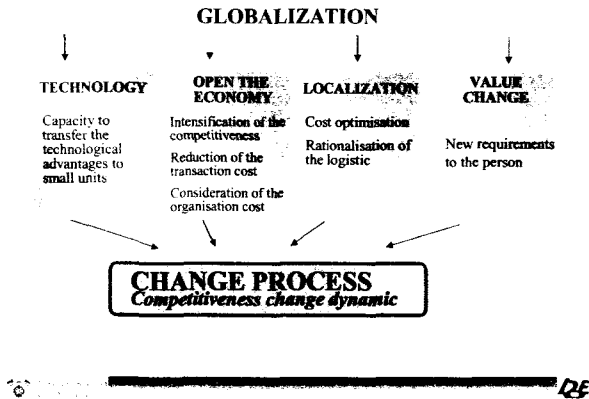
Figure 3

1.2. Globalization and strategic design

Today, globalisation is more than a mere interpretation of the elimination of barriers and an opening-up of societies and economies. Globalisation and not singularity is the source for defining *criteria*, at institutional and functional levels, by which management systems, corporate strategies and management and

---

[3] Lehmann, Kart Cardinal (2004): "*Solidarität braucht Eigenverantwortung*", Conference given on the 5.10.2004, Vortragsreihe from Institut der deutschen Wirtschaft, Cologne, 16.10.2004.

individual behaviour are in turn to be defined. This implies a complete break in the entire orientation of economic business approaches in order to put a stop to the erratic evolution that has been occurring for more than a decade within the context of our institutions.
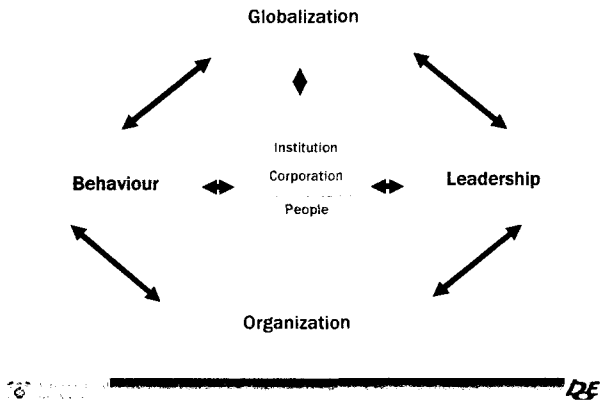
Figure 4

And not only does this global dimension affect the location of the business as an *institution* in a global or planetary dimension, it also affects every business process and therefore each business action must seek its *criteria* when adopting global decisions. This is a drastic change both in both economic-business analysis and in the strategic designs of individual businesses. Moreover, the business must accept this globalisation in such a way that it institutionalises the new corporate design. The corporation is the institution that expresses the growing role of the individual in the configuration of a non-functionalist business community based fundamentally upon the capacities of the shareholders, managers and staff to define new, open, flexible, structures. It is from this that the need for the urgent recovery of the *institution as a corporation* springs with people involved a *common project*[4] in order to take up the challenge posed by innovation.

---

[4] The Economist (2005b): "*The economics of Sharing*", 03.02.2005.

4

In the scheme presented here, Globalisation configures a new interrelationship between the institution and the individual that is reflected in both behaviour (Corporate Culture) and in the growing need for leadership. This is not leadership in the classical sense of configuring new teams but the ability to integrate people into a common project. The case of Toyota and its situation within the automotive industry at a global level[5] reflects the above point perfectly.

BUSINESS STRATEGY IN A GLOBAL ENVIROMENT
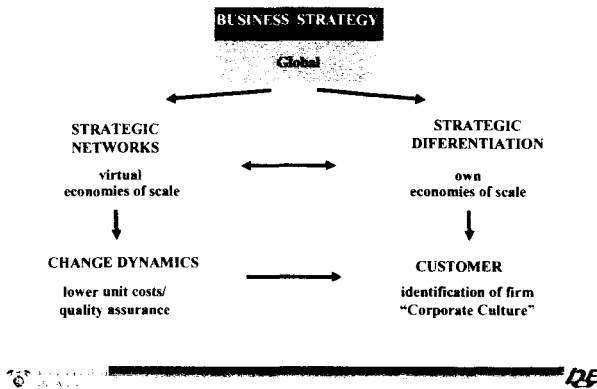
Figure 5

The designs themselves, based on closed configurations of rigid conglomerates, cannot remain in the form that they have taken up to the present moment. Instead they tend to be open, flexible organisational forms that demand high levels of cooperation. They are *networks*; open, highly permeable, systems that approach new problems that are not only organisational problems but also management and strategy-definition problems[6].

---

[5] The Economist (2005a): "*The car company in front*", 27.01.2005.
[6] Pierer, Heinrich v.; Mirow, Michael (2004): "*Strategie im Praxistest*", Harvard Businessmanager, October, p. 1-7.

5

1.3. Globalization and management system

Globalisation also represents a highly significant break in the orientation given to management systems. For almost two decades the pronounced orientation towards *costs* has been predominant, generating a "*cost culture*" and presenting, according to the historical moment, different modalities or fashions within management systems. Some cost-oriented management and executive systems have come to be defined as rationalisation or re-engineering while others seek locations where such cost factors as labour might be regarded as more significant from the perspective of the resource itself.
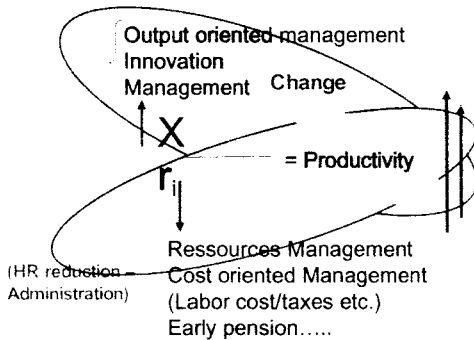
Figure 6

All of the above has given rise to a basically predominant *short-termist* orientation with an evident preference for *economic input analyses* and a marked neglect of *their results and achievements.*[7]

---

[7] This can be perfectly appreciated in the present competitive debate within the automobile industry, between Toyota's understanding of results as the process as a whole and what its competitors understand results to be. The Economist (2005a): "*The car company in front*", 27.01.2005.

The *quasi finalist* orientation of cost as an objective has been the predominant cost mentality until the present time, generating a predominantly functionalist contribution. Profound change is needed with regard to what is basically regarded as the "*contribution*" to the achievement within the global network of each of the units and individuals through their behaviour and shared global criteria in order to use both the internal and external potential available.

This new orientation towards and interpretation of cost which must, indisputably always be of primary importance in a business' rationale, is not a *final objective*; rather it is the predominantly the instrument of rationalisation that must be used so that the "*contribution*" as the final objective of the people and institutions is regarded as the basic guideline for the use of capacities and resources.

1.4. Corporation and its design

All of this has led to the fact that for a long time there has been a strong orientation towards *structures* and not people.

This long transitional period that has lasted more than a decade and has given rise to the phenomenon of ever-decreasing life cycles, not only in terms of the product but also in terms of procedures and processes. This in turn has involved profound changes in management values and in the generational changes of managers itself in order to safeguard management systems and their functioning.

This has been approached by systematically strengthening functionalist structures within management systems where in essence the *analytical* outlook predominates and where the new *corporate dimensions* that respond to other global needs of business orientation with highly permeable, yet complex and difficult to manage designs, have hardly taken their first steps. In this regard, barriers due to centralised organisation and the difficulty of entering networks have played an important role[8].

---

[8] See Pierer, H. v.; Mirow, M. (2004): "*Strategie im Praxistest*", op. cit.

It might be understood that we are in a process of historic change with regard to how economic and social phenomena, particularly those phenomena affecting the world of business, are interpreted and conceptualised. Globalisation represents a significant modification in the sources from which social and economic criteria spring, above all corporate and management designs, and especially the behaviour of managers and individuals. This then is at the root of the interest shown in recent years concerning problems that also affect even such matters as retributive issues and the present preferences for debates concerning issues that are not going to be decisive to the success or failure of institutions but that nonetheless are issues that excite great public interest. Figure 7 illustrates the behaviour of managers' retributions and the evolution of the company.

Out of line
Pay and total shareholder returns
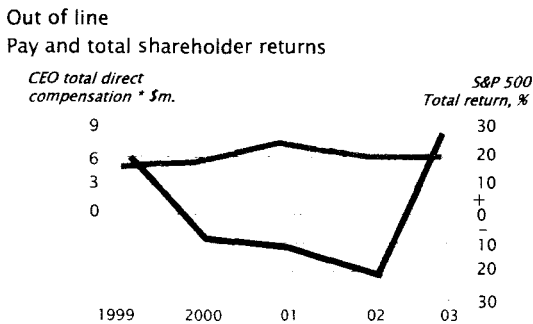
Figure 7

Figure 8 illustrates the outbreak of this problem in 1995. Many of the present moments concerning corporate governance have originated in this perspective, yet without this being the fundamental problem for businesses. However, as a business orientation the predominant shareholder value orientation has neither an adequate ethical nor political response[9].

---

[9] See v. Pierer, H.; Mirow, M. (2004): "*Strategie im Praxistest*", op. cit.

Amply rewarded
CEO compensation per $ of net profit
1980-100

	600
	500
	400
	300
	200
	100
	0

1960 65   70   75   80   85   90   95 2000

Sources: Business Week; Standard & Poor's
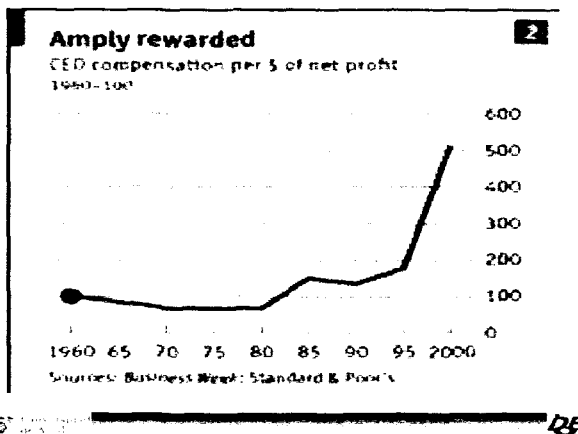
Figure 8

This contribution intends to illustrate, in essay form, the main determining causes and the focuses that should dominate the present transitional situation seeking a new corporate location for businesses.

2. The institution and the individual: the key to businesses processes

The last decade's rupture of traditional management schemes and the manner in which *business strategies* have been conceived have, to a great extent, rendered processes of change more difficult. In specific terms these traditional schemes have not been replaced by a clear new institutional orientation.[10]

This difficulty in transforming management systems is the result of the functionalist configuration of the institutions, making it impossible for them to be the reference point for the orientation of shareholder, management and personnel behaviour as well as for the way we understand the business' strategy of seeking

---

[10] See v. Pierer's magnificent analysis concerning strategic changes.

standardisations that do not correspond to these traumatic changes. Therefore, there has been a lack of a clear, efficient corporate institutional orientation, leading, as mentioned earlier, to very serious errors.

KEY CRITERIE FOR INSTITUTIONALPERFORMANCE
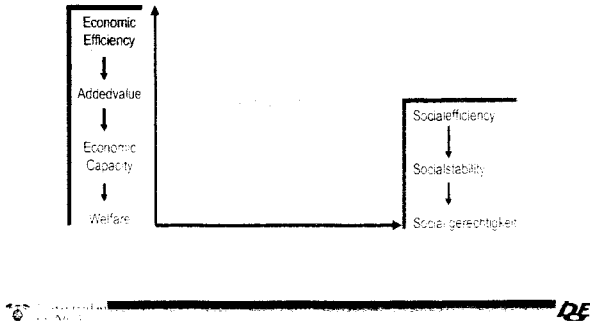
Figure 9

The serious errors and abuses of the erratic *shareholder* orientation, with its almost exclusive predominance, that have taken place over a complete decade, have contributed to the development of a specific management systems orientation while simultaneously configuring an unacceptable ethical and political dimension in the governance of businesses.[11]

This lack of perception of a business' political and ethical dimension and that of its managers and individuals is stimulating an open debate upon how the governance ambits of businesses must be configured and who must configure them, as already mentioned.[12]

---

[11] As v. Pierer indicates "*Emphasising the unilateral shareholder orientation has led to abuses that cannot be supported either politically or ethically*". See v. Pierer H.; Mirrow, M. (2004), op. cit.

[12] Davis, I. (2005): "*The biggest contract*", op. cit.

10

The errors of a generalised homogenous *shareholder* orientation has led to the development of management systems that have also given rise to serious errors in strategic orientation involving numerous acquisition and merger processes while simultaneously lacking a global vision. At the same time they have fixed orientations that affect internal potential without integrating global integration.

Shareholder value has served, to mark from a *financial analyst's* perspective, the business' orientation in many short-term fields yet without becoming a coherent management system. This has provoked very serious doubts concerning the sustainability of the management systems themselves and their orientation. Businesses have been left without any practical effective management system.

These wide-ranging strategic errors are the fruit of a lack of *corporate vision* in areas such as a global point of reference and particularly in strategy and management systems design. The dominance of the *singular*, the specific, the instrumental or functional as isolated specific business elements has held sway over a vision based on the global perception of the business. There is a lack of a global vision in the orientation of management systems. Over the last decade, the rupture of many of the great intangibles, of the intangible value of many businesses has undoubtedly been the consequence of *singular elements*, concrete businesses, predominating over the global view, relegating the value of the global intangible value of a business into second place.

The tendency from the 1990s onward to homogenise management systems around shareholder value has created a generalised and violent cultural conflict within both businesses and society.[13]

---

[13] As can be seen in the experiment undertaken by Mckinsey's president in the Economist, Davis, I. (2005): "*The biggest contract*", op. cit.
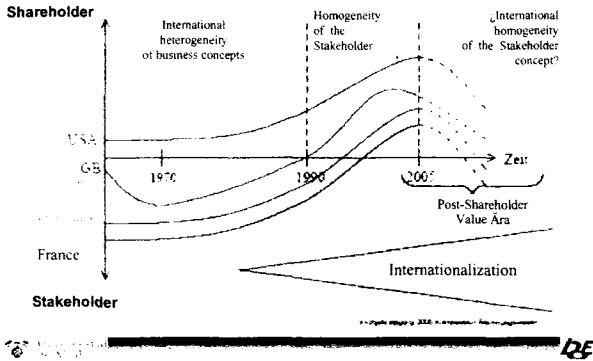
Figure 10

"...there are two factors which, from the present perspective, have led to discrediting the company in the eyes of the shareholder: firstly there is the unilateral nature of businesses' value. The second factor is the risk to the portfolio"[14]

To which must be added the large cultural changes brought about by two decades of ruthless divisionalisation, a business management design that arrived in the 1990s in the most of the multinational companies, highly compact, closed organisations that were difficult to transform, organisations that would later cooperate in this transformation. The impermeability of the organisations in a compact, closed institutional design has made it highly difficult for *globalisation* to be used as a fundamental change in their transformation. The lack of global, open thought has not arisen. Globalisation is transversality, interdiscplinarity.

The key to globalisation is to be found in the importance of *intangibles*, of *brands*. The criteria to configure and discover strategies have failed precisely because the business' *corporate orientation*, in other words, an orientation towards the business'

---

[14] Davis, I. (2005): "*The biggest contract*", op. cit.

global nature within an open context where its intangible assets, are today practically the greatest part of a business' value, in many cases between 60% and 70%, has not been taken into account. Tangible assets no longer represent, as during the *shareholder value* period, the value of businesses or specific and singular actions upon which it was believed that expectations of future results could be placed. Such a view has been shattered by completely unforeseeable factors such technological advances, the appearance of new competitors etc.

This is why strategic failures are so huge, since they affect in most cases 90% of projects. The same occurs with the mergers and acquisitions undertaken, with only 25% fulfilling their forecast objectives.

PROFILE OF YOUNG *VERSUS* EXPERIENCED MANAGERS
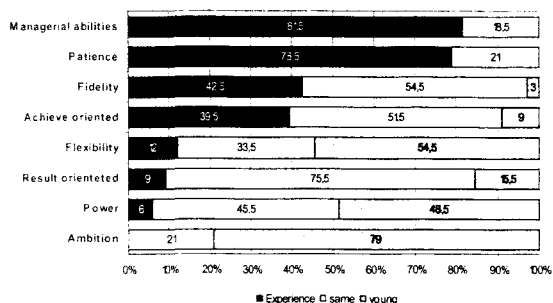
Figure 11

To this must be added the fact that in the 1990s there was a deep *generational change* whose conflicting values and ideas were unprecedented in previous decades. As can be seen in Figure 11, the values with which the former managers left the businesses during the 90s after a long period managing the businesses, embracing their managerial abilities and their much-needed managerial skills and capacity for reflection, conflict with the values of the new generations of managers who are more focused upon keys such as

ambition, power or flexibility in the dimension affecting the change –
yet another serious cultural shock.

The business institution as a *corporation* oriented towards the
individual embraces three dimensions:

1. *The corporate dimension.* This is without doubt the
   intangible asset par excellence and is the business' long-
   term future value. It is the basis for the sustainability of the
   business' value. This point, the *corporate dimension*, is the
   bridge between each business' *global* and *singular*
   characteristics. This then is the source of the weight of
   strategies and organisations as well as that of functions,
   with globality-derived criteria that impact upon the
   corporation's design and configuration.

The context of a corporate dimension includes three *intangible*
components:

   a. *The vision of the future* and the business' desired
      position in terms of its economic dimension and its
      social dimension, as can be seen in Figure 12.
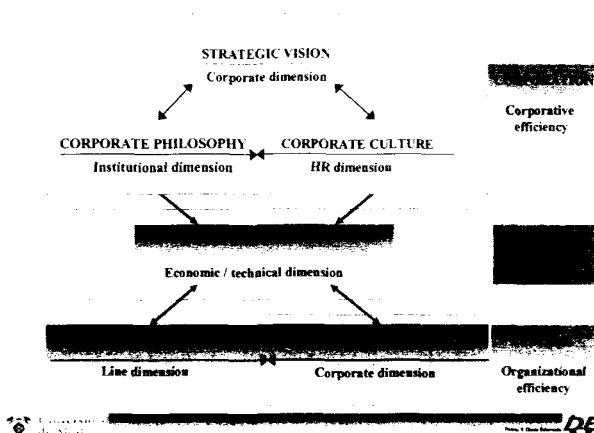
Figure 12

The *economic vision* is the establishment of the goal to be reached in order to respond to the demands of certain stakeholders and to ensure the company's future sustainability. Moreover, there is the social dimension that embraces people. Both constitute the key for defining the space within which the business' orientation has to be defined. According to the desired position, A, B or C, we have different basic approaches, different orientations. In brief, we have different value judgements upon which the processes and orientations of management activity have to be oriented.
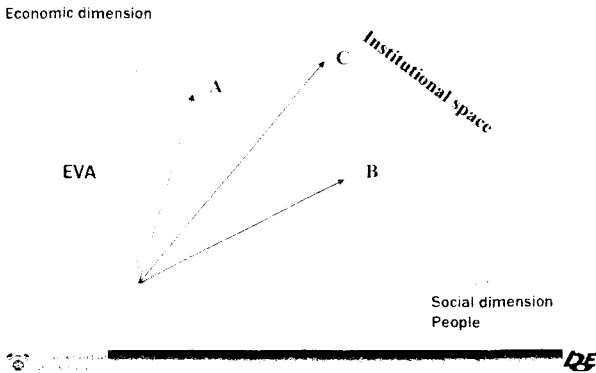
Figure 13

b. Once the corporate vision has been defined, the manner in which the corporate institution adapts to the future in order to realise this vision has to be determined. This is what we call the *business philosophy*, the values system that must pertain so that the "*coordination costs*" between individuals and institutions can produce reductions thanks to transparency and, simultaneously, ensure coordination mechanisms based on the values enabling people to orient themselves with regard to their behaviour.

15

c. The process of this institutional and corporate orientation with regard to the whole trend towards globalisation requires processes of *cultural change* within the businesses, processes that are the result of the transformations that must be undertaken in order to achieve the proposed corporate vision and increasingly involving the integration of the individual. There is no such thing as an effective institution if the people within in are not perfectly integrated. Furthermore there is no *personal development* if there are no institutions in which individuals, through their individual contribution can, through personal development, develop the institution itself. The search for this *business culture*, often the cause of the numerous failures in mergers and acquisitions with the serious problems that mergers entail, even to the point of endangering the very survival of the business, itself, can today be regarded as the main obstacle to the sustainable growth and profitability of businesses.

2. *The strategic dimension.* How a business adapts to changing conditions within the globalisation process is going to depend upon the choices made from the different possible alternatives available. This is a process of how to master the dynamics of external change with regard to the potential dynamics for internal transformation within the business so that the coordination of both drastically reduces "*coordination costs*".[15]

    Throughout the whole of the 1990s, the instrumentalistion of this strategic dimension was a source of great difficulty. The error lay in the search for standard elements instead of identifying the specific institutional and personal potentials upon which a particular identity for confronting the environment's changing circumstances could be built. On the one hand globalisation and the impact of the transformation

---

[15] Pümpin, Cuno; García Echevarría, Santiago (1993): *"Estrategia Empresarial - Como implementar la estrategia en la empresa"*, Ed. Díaz de Santos, Madrid.

16

of business processes, and on the other behaviour would decide whether the chosen strategy would succeed or fail.

3. *The organisational dimension.* This is the type of organisational order chosen to undertake the changes, in line with the corporate organisation and the company's strategy, so that behaviour and decisions in all of a company's functional areas converge, without structures or bureaucratic obstacles, in the management and directive structures. The aim of the above is to make them completely permeable to collaboration between the various units and individuals – in other words to achieve flexibility and speed in the change processes. The *intangibles* constitute the person-oriented *corporate dimension par excellence*. Such intangibles reflect the real globalisation affecting the firm in order to position strategy and operativity in its corporate process, performance being today the fundamental element in a business' success.

3. The harmonisation between behaviour and leadership based on institutional corporate design

Above all the impact of globalisation is centred on the process of personal integration and development, both with regard to the individual's capacity for personal development and to his or her capacity to generate social competences thus enabling him or her to contribute through his or her knowledge and skills to the development of know-how and innovation. Globalisation aims to create units with management spaces that are sufficiently flexible and permeable, with all of the difficulty that the above entail.

Globalisation, global thought, therefore impacts upon the behaviour of individuals and attempts fundamentally to open their values towards *innovation*. Talking of *innovation* only has meaning if it deals with a management system oriented towards the numerator of the model illustrated in Figure 6., in other words, individuals as such develop their potentials and that these processes are capable of generating innovation, results.

Figure 14 illustrates that individuals must, have to, share their know-how through organisational networks. Such organisations are those that have to become the elements establishing strategic interdependences that can lead to innovation as an intercultural and interdisciplinary process.

KNOWLEDGE AND INNOVATION
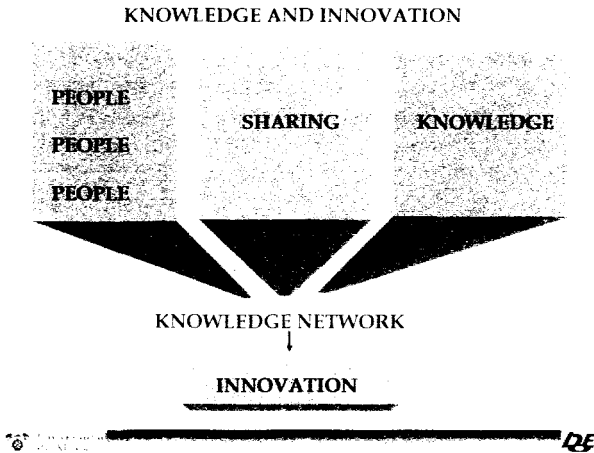
Figure 14

Therefore the business' orientation must be oriented towards the individual from the corporate dimension, a dimension that affects the individual's development; on the one hand, his or her leadership abilities and on the other his or her capacity for innovation. Figure 15 illustrates how in the new designs business success is determined by three dimensions:

- *The corporative dimension* embraces the corporation's priority design together with its values and its vision as both conducting elements and coordinating elements at the highest level of the management systems' orientation and of individual behaviour. In the *human dimension*, this has to be interpreted as the central axis that goes from the capacity to be able to lead processes to the capacity of generating innovation with the support of the third, organisational, dimension.

Business success

Business' orientation
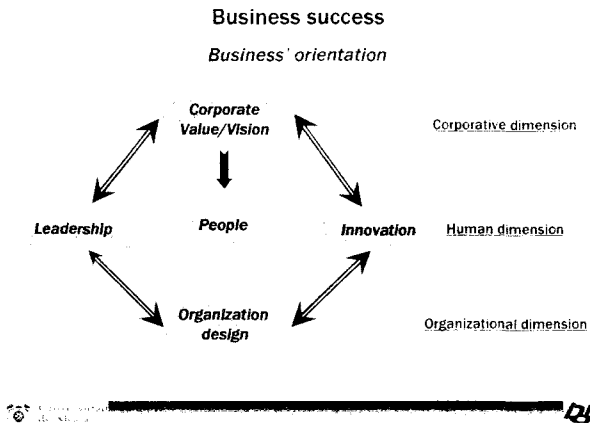
Figure 15

- *The human dimension* embraces as its central axis the individual and corresponds to his or her capacity to develop leadership and innovation.

- The third element is the *organisational dimension,* the instrumental support so that organisational designs, in open, permeable *conglomerates,* support the strategic coordination for each of the units in order to orient their use of resources and capacities towards results.

Figure 16 gives a more detailed interpretation of the individual and his or her anthropological concept within the figure.

The individual has a series of potentials which he or she should attempt to use in his or her development and to cover his or her vital and cultural needs. As can be seen in Figure 16, the traditional dimension has been the *contractual dimension* that is based on an economic order, configuring an individual market-based ethic.
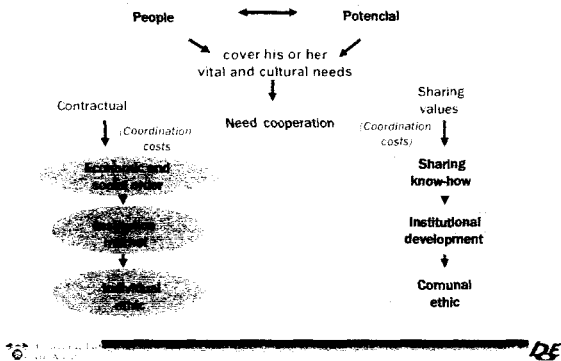
Figure 16

When attempting to manage a business through the sharing of values, coordination takes place in order to share know-how while seeking an institutional development in which *community ethics*, *social ethics*, in the basic meaning of *transparency*, something needed by all organisations, becomes possible.

Leadership entails the development of the competences of managerial development based upon:

- technical competences,
- intercultural competences,
- social competences,
- managerial competences,

especially regarding the transformational dimension of leadership, in both a personal and in an organisational-institutional dimension.

4. Sharing as an expression of transparency and confidence

However, the key to the whole process, the root of the importance of the subjects of *institutional governance*, is the need for *transparency*.

It is true that at first the effort is centred upon person who, as an individual commits him or herself. Such personal effort, however, is only of value when it is a *shared effort*. The effort is the result of *sharing know-how* with many other people, something that enriches the individual and the social group in which he or she develops. This is when the individual's value increases and generates:

- confidence,
- self-esteem,
- leadership.

Sharing however is not a one-way process in which knowledge, skills and competences are transferred to an individual; in reality it is a two-way process: in which individuals open themselves to others so that they can share knowledge as an individual. This process demands key values such as:

- generosity,
- an openness to multiculturalism,
- the perception of others as individuals.

all of the above has two great consequences and the social group in which he or she develops.

The economic and social value of each individual, independently of his or her self-esteem, of his or her personal estimation is generated by others. It is the social group that esteems, values an individual's know-how and capacities and also as a result, the enrichment that he or she gains from everyone else.

The problem for a manager, for everyone committed to others, is the value that is given to the *esteem* of his or her work. This therefore is the reason why he or she needs to be generous with his or her own

individual value, a generosity that must clearly be distinguished from the concept of selfishness but not from that of ambition.

Everyone who directs, who involves others in order to successfully use know-how, skills and competences needs to have *ambition* since without ambition one cannot direct, but by its very essence within the social group, ambition is esteem and must not be confused with selfishness. One of the great obstacles at present to the development of organisations is precisely the dominant philosophy of an individual hedonistic selfishness[16]. Selfishness does not imply ambition; to the contrary, it impoverishes the individual, the group, the business. Ambition must be part of individual development and contributing to the group is an essential part of leadership itself.

Sharing is, undoubtedly, the key to the present-day success of information and communications technologies. We have all learnt and are learning to share the technological ICT media – of what use would the technological advances made in recent years be if we had not learnt to share technology?

The world that has been so recently created in this ambit is completely different. If the numerous failed *dot.com* failures are analysed the failures will be seen to be due to the cost of learning to share technology and the enormous consequences that these have had upon human behaviour, business organisations and institutional designs.

Sharing is what has been learnt in recent years in ICT technologies. However we are far, very far, away from transferring this process of sharing technology to sharing know-how "*socially*" in the new concept that has arisen from "*Social Sharing*"[17]. This is the sharing by each and every one of us of social competence dimensions; the sharing of know-how and of skills with everyone else. This is the new challenge for both individuals and organisations. In my opinion, the social sharing of know-how as an individual is the key to leadership

---

[16] See Utz, Arthur F. (1998): "*Ética Económica*", AEDOS, Madrid, p. 81-84.
[17] See The Economist (2005b):"*The Economist of Sharing*", op. cit.

"*Social Sharing*" is an unprecedented cultural transformation that is here now and today is a good case history in businesses such as *Toyota*[18], as an example of the success of a whole culture. *Innovation* is precisely the result of sharing know-how, no more, no less. However, in Europe we are experiencing great difficulties in achieving it due, apart from other obstacles, to the difficulty of sharing, not only between people, but also between organisations and institutions.

When in any present ambit in Europe, and in the most diverse countries, there is talk of *reforms,* in reality one is talking of breaking down the barriers of *"not sharing".* It acquires different concepts and different appreciations, but any reform that does not lead to sharing, be it a social, political, economic or an organisational reform within the company itself, will from the very outset be doomed to failure.[19]

Know-how that is not shared contributes neither to the personal development of the individual nor does it have social or economic value and, I would venture to add, is *culturally difficult to understand.*

Know-how that is not shared does not contribute to the development of the group, the business or of society. Sharing is undoubtedly the greatest corporate contribution made by a business to society − it is the business' genuine corporate responsibility where individuals learn to share since without sharing it is difficult to strengthen confidence as an undisputable value in the tearing down of all types of barriers, making it impossible to:

- open up societies,
- open up businesses and their organisations,
- open people.

this is the only way to change the selfishness that gravely affects individuals and social groups since selfishness closes things down, it makes the development of *confidence,* dialogue and communication, all of which are basic values for the development of organisations and their people, unviable.

---

[18] The Economist (2005a): "*The car company in front*", op. cit.
[19] The Economist (2005c): "*Mind the gap*", 10.03.2005.

Every social and economic order, especially the one closest to us, the European, must of necessity give momentum to this sharing in order to graft it onto European culture, an organisational and human element that is difficult to perceive. The present trend towards the stripping-out of bureaucracy can only be achieved through sharing, opening up, not closing down. Closing down gives rise to enormous coordination costs in organisations and individuals, it atrophies organisations and individuals and generates a fear of flexibility and change.

In reality the lack of sharing denies the individual's essence as a social being whose own personal development has a fundamental need to share.

For the individual fortunate enough to influence others, directing always implies recognising the directorial roles of other people and seizing this unique opportunity for enriching his or her personal development. This is the greatest *"payment"* that a person who leads and directs can receive, provided that he or she is able to change the social competences based on generous change and be permanently alert to the dangers of selfishness.

And directing always presupposes the individual's leadership capacity as his or her highest commitment and this is an increasingly important role because of:

- the complexity of reality,
- growing multiculturalism,
- the speed of change.

However, directing implies a permanent *responsibility* and this is the *commitment* that all managers must assume on his or her new route. It is his or her mission and commitment towards everyone else, towards the business and society[20].

---

[20] The Economist (2003b): "*How to run a company well*", op. cit.

5. The Challenge of Strategic Control and Ethics as a response to confidence and the business' reputation

Globalisation impacts upon the business environment with the new corporate dimension that springs from the need of a new institutionalisation of business economic analysis, of its potentials within what we could here call *Strategic Control*.

The importance of *corporate governance* can only be understood as a future orientation and, most particularly, as an orientation not towards management control which is something that corresponds more to the denominator (see Figure number 6); in this case we are dealing with the numerator: the commitment to *innovation* and the continuous transformation of the business that implies another design of economic calculation based upon the two elements already mentioned, *future* and *potentials*.

The evaluation of economic potentials within the increasingly permeable and highly decentralised corporate design requires at all levels a positive disposition towards:

- Transparency,
- confidence and
- reputation.

These are the three keys to corporate success and the development of the individuals within the organisations.

Accountability concerning the use of available potentials is always an important factor in all human and business activity. Being accountable is the attempt to contribute to one of the basic principles of the human action of *transparency*. The demand for transparency has acquired in recent years an increasingly important role at a world level.

Transparency is without doubt the present's great problem within the business world as well as in the rest of the ambits of our institutions, in the university ambit itself, for example. Governments exert increasing pressure for the *"regulation"* or the *"wish to regulate"* transparency by establishing legal standards in different ambits of businesses in both their own corporate dimensions such as

25

the configuration of its organs of government as well as the *"rendering of its accounts"* in the most diverse ambits of the *business' social responsibility*.

Governments' regulatory pressure can alter the very constitution of businesses *"concerning responsibilities, their performance, their implications"* leading to a serious deterioration in the *"reputation"* of many institutions.

Without doubt, *regulation* closes spaces of corporate responsibility; it implies a new concept, not only of the business but also of the economy as well as of the economic and social order itself.[21]

On the other hand, the business world must seek its own response to this demand and the necessity of transparency in the corporate context, of the organs of government itself and of its own *performance*. This response by business to society's demands is, under the name of *"corporate governance"*, a completely new chapter in the conceptualisation of the business. *"Codes"* of the most diverse nature, fundamentally oriented towards the presentation of results, such as the classical rendering of accounts, of financial information, have been drawn up in all European countries and new international norms have been established – and indeed will continue to be established. Yet the transparency dilemma remains.
Why have these demands for transparency arisen with such force within business and non-business institutions?

Scandals have undoubtedly played an important part not only in certain well-known business actions but also in regulatory institutions such as the case of the New York Stock Exchange. Their political consequences have had a huge social impact.

However, independent of the situations that provoked the demand for transparency, there are fundamental values that in reality are the pillars that have to guarantee the transparency process:

- the generation and conservation of confidence,
- the reinforcement of reputation,

---

[21] See The Economist (2003b): *"How to run a company well"*, op. cit.

- to which could be added another concept that has become socially and politically important in recent years: sustainability.

the question is sustainability of what? Quite simply that of *confidence* in these institutions, *confidence* in the management, in clients, in suppliers, in the political and social class. In order to *"sustain"* the increase of *reputation* in businesses and in people, transparency is undoubtedly a fundamental issue. Here we must mention that confidence depends upon:

- the economy, given the fact that the economy in no more and no less that the expectations that we generate with regard to economic and social phenomena,
- currency stability,
- the reliability of the economic development,
- the prospects of finding employment,
- pensions systems, the business' viability etc.

This is the problem, facing us at the present time, a problem that is especially acute in Central Europe.

At this point we are facing a dilemma in our institutions, business and other organisations concerning how to achieve levels of transparency that would be able to:

- generate confidence,
- generate the necessary reputation,
- make this same transparency sustainable so that as individuals we alter our behaviour towards sustainable and real expectations.

If the contrary occurs, the economy, institutions and politics do not function and the *credibility* of the organs of government does not have the capacity to issue acceptable expectations that respond to needs.

The dilemma for transparency is whether it should be regulated through standards or whether people should be charged with the

responsibility of generating this transparency as an integral part of their own cultural and ethical dimension.

The problem is "*space*". In other words, what is the dominant space in transparency regulation? Should it be a legal framework that regulates the reduction of spaces of individuals' responsibility or should it be a framework that leaves, in social terms, wide spaces for individuals?

The choice of one or other system upon which rests the configuration development and *performance* of the organs of government, the responsibility and risk processes and in particular, the *commitment* of individuals, of our institutions, will decide whether institutions and individuals will succeed or fail.

The choice made within this dilemma has highly important results for our institutions, individuals and organs of government. It constitutes our present dilemma; do we base our business actions upon an orientation of the past and interpret the future as a continuation of the past or do we configure future-oriented actions, seeking challenges and opportunities, creativity and innovation?

Recently *The Economist* indicated the interpretation that must be made of *corporate strategy* and the dilemmas arising in many companies due to this corporate strategies: "*As they search for growth opportunities, however, companies face a classic dilemma, one made more poignant by recent events: should they assume that the future will, more or less, be a continuation of the past; or should they try to anticipate the next big revolution?*"[22]

Transparency, according to the chosen strategic focus is doubtlessly a key value in business life. There is no confidence, no development capacity if there is no *sustainability of this confidence*. But this is in the future, not the past and the future can be neither transformed nor regulated *the future lies in the individual,* the past is the verification of the rule.

---

[22] This issue is discussed in the article, The Economist (2003a): "*Who gets eaten and who gets to eat",* 10.06.2003.

The *social framework* undoubtedly demands a new *confidence framework* to enable people to act both as individuals and as a social group. However the individual needs ample and generous space for his or her creative and innovative action to develop and for his or her social development and involvement to take form in this situation of expectations.

Stock must be taken concerning the business' future and institutions in order to motivate, involve and develop individuals, individuals who generate expectations, who change human behaviour. This is the fundamental concept within strategic thought.
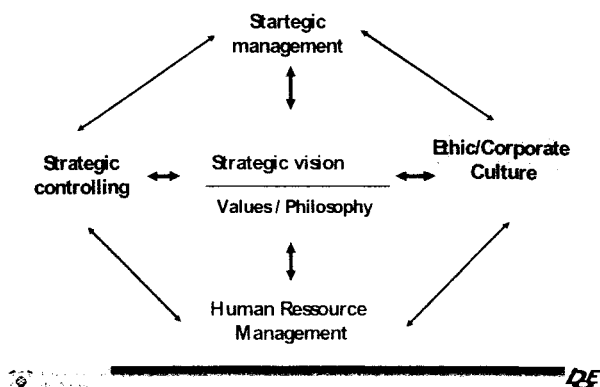

Figure 17

The strategic management of a company in a horizontal, permeable and highly decentralised conglomerate requires two fundamental bases: Strategic Control with an economic analysis concerning future expectations from the business dimension itself; and the ethical and cultural dimension that enables the configuration of individual actions on tangible and quantifiable realities as well as the intangible and moral realities that allow organisations to be designed, organisations that support the coordination of the elements of confidence upon which the business' evaluation of the future and the viability or otherwise of its strategies lie. Strategies are viable provided that individuals trust the corporation and that it is possible

to identify with these transformation projects. This is when strategies are successfully undertaken.

6. Conclusions

1. Globalisation's impact means, and very particularly, a new way of understanding and configuring business management processes.

2. Globality is not a merely a commercial reality or the internationalisation of the economy; it is predominantly a new expression of Society that entails the opening of mentalities, the integration of new values and a new way of perceiving reality.

3. This therefore means change in the *methodological* ambit upon how we think, going from the local to the global and, especially, the fact that multidsiciplinarity and multiculturalism become increasingly closer to the individual's own reality, more so than in the traditional approaches of closed and limited societies.

4. Fundamentally, globality also entails a new manner of understanding economic and business analysis, changing from linear *thought* to a global process in order to understand reality in its concrete expression – a global or parallel interpretation of the different processes that constitute this reality. It entails a basic rupture in analytical thought, its reduction in the interpretive role of the economy and business management systems in order to progress to more interdisciplinary dimensions.

5. All of the above means a new manner of understanding *dialogue* as the fundamental expression of cooperation, for which reason elements such as transparency and confidence, keys to the development of an economy, above all a global one, are introduced.

6. This requires a fundamentally new orientation in our *way of thinking* and in management systems: firstly in the

orientation of the individual and in second place, although also with its corresponding importance, in structures and organisations.

7. The information available is assuredly much more imprecise and uncertain and entails a greater degree of risk than in closed economies and societies. In these latter the orientation of business and economic design looked towards the past. The future was a projection of the past while in the case of globality, it is the future which is the primary and most important element in the social and economic reality. This requires less support from the past, even though we are in a constant state of change, and a greater orientation towards the individual and his or her creative and innovative capacities.

8. The final costs of factors in the orientation of management systems ceases to be predominant and occupies its true position the economic reality – mere instruments that, in terms of efficiency, are important in order to reach the final objectives of innovation and the most effective response to society's needs.

9. This downgrading of the importance of resource costs is the undoubtedly great mental shift within which the new management systems must be designed and as a result the present orientation towards profitable growth has of necessity to undergo a change of focus towards the *final objective of the individual*, the individual having the capacity to innovate. It is *innovation*, and therefore the results of the final objective that makes instrumental use of the costs of factors as a determining element in the effectiveness with which this objective is achieved.

10. Globalisation is characterised by a new dimension of the intangibles within the value of a company. Due to the reduction of lifecycles, it is the future that is given greater value than the past.

11. The future is the capacity to respond and this is due fundamentally to the available management capacity and to

corporate design that has given rise to economic and social activity involving changes in human behaviour towards the *final objective* of *innovation and creativity* as the basis of efficiency as a response to needs via an efficient use of resources. We therefore have two dimensions, the *corporate*, constituting the *final objectives* and the *instrumental* dimension constituting *the cost of factors*.

12. The corporate dimension that reflects the business 'future value, is that which is quoted on the stock markets and is the fundamental axis of the *business' value*. This corporate dimension integrates the capacity to generate future, to generate results through innovation and through the individuals involved as well as defining the orientation of behaviour towards the constituent values of the corporation and towards the generation of a culture that integrates these values.

13. Simultaneously, this means that the individual plays a key part, not only in terms of his or her behaviour, but also in terms of the ever-increasing demands of leadership. The handling of intangibles, more than tangibles, needs individuals with *leadership ability* since what is being managed is values and behaviour. If tangible resources are being managed, what is being considered is an institutional design based upon *management capacity* of certain *resources* and here *determinism* plays a key role.

14. There are two keys that are basic pillars to the whole new business design process with regard to globalisation: Strategic Control, or the measurement of the available economic and social capacities and Ethics which is a basic point of reference, not only for the corporation but also for the orientation of the business culture itself.

15. One of the key factors in this process is the recovery of *confidence* through transparency, the business' reputation and as a result the systematic reduction in coordination costs. The success of a business depends fundamentally on articulating these three elements:

- Transparency,
- confidence and
- reputation.

7. Proposals

Within the proposals derived from this essay's perspective the following should be especially borne in mind:

1. Fundamentally, globality involves a change in the way of thinking and focussing upon the situations and management systems designs. These therefore have to be oriented towards the individual if we want to achieve *results*, in other words, *innovation.*-oriented behaviour in both the individual and in the business.

2. This requires that structural and organisational designs be increasingly based upon open, permeable systems that, based on a network system, enable a dialogue that facilitates the sharing of strategies to be established while at the same time sharing available capacities with the corresponding impact upon the unit costs of tangibles and differentiating consequences, from a strategic intangibles-based perspective.

3. The aim is to establish a new conceptualisation of the management system oriented towards those individuals who have to conceive and undertake a strategy, providing it with a permeable organisational network that is more difficult to manage due to its very permeability.

4. One of the basic functions of this dialogue is the arrangement of management's basic elements: the arrangement with regard to the future calculation of the economic and social capacities available and included in *Strategic Control* – the future in other words, and the dimension that corresponds to *Ethics*, in other words, the relationship of the individual with the business as a whole, or with the outside so that he or she involves the corporate culture in the transformation process concerning those

values that make the generation of transparency, the very basis of confidence and reputation, viable.

8. Bibliography

- Davis, Ian (2005): *"The biggest contract"*, The Economist, 26.05.2005

- García Echevarría, Santiago: *"The Impact of Globalisation on the configuration of Business Institutions-From Corporate Design to leadership"*, en "Internalisierung und Institution", ed. Oesterle, M. G. and Wolf, J., Wiesbaden

- Lehmann, Kart Cardinal (2004): "Solidarität braucht Eigenverantwortung", Vortragsreihe from Institut der deutschen Wirtschaft, Cologne, 16 10.2004.

- Pierer, Heinrich v.; Mirow, Michael (2004): *"Strategie im Praxistest"*, Harvard Businessmanager, October, p. 1-7.

- Pumpin, Cuno; García Echevarría, Santiago (1993): *"Estrategia Empresarial - Como implementar la estrategia en la empresa"*, Ed. Díaz de Santos, Madrid.

- The Economist (2003a): *"Who gets eaten and who gets to eat"*, 10.06.2003

- The Economist (2003b): *"How to run a company well"*, 23.10.2003.

- The Economist (2005a): "The car company in front", 27.01.2005

- The Economist (2005b): "The economics of Sharing", 03.02.2005.

- The Economist (2005c): "Mind the gap", 10.03.2005.

- Utz, Arthur F. (1998): "Ética Económica", AEDOS; Madrid, p. 81-84.