Better Together: management, morals and co-operation in times of globalisation

Hans-H Münkner

Introduction

In German newspapers the headlines are full of news of the soaring profits of multi-national conglomerates and the simultaneous laying-off of employees despite workers' agreements to cut wages. Criticism of such developments is growing. Managers of international enterprises appear to be ignoring their social responsibility. In the following the main arguments mentioned in the press against capital domination at the expense of labour are summarised and the reasons given for this one-sided orientation of many managers towards increasing shareholder value are studied.

This is followed by a discussion of the effects that worldwide trends in co-operation among enterprises have on the thinking and action of management of group enterprises. In the case of co-operation management, promotion oriented thinking competes with investor-orientation. In co-operation of commercial enterprises, the question of value-oriented management remains open. It is different in enterprises of social economy and co-operative enterprises which are presented as examples of value-oriented management and as branches of business neglected or totally ignored by conventional (mainstream) business administration.

Public critique of managers

Do managers of multi–national conglomerates lack ethical standards, have they not received the right training or has there been a failure to provide the right legal framework?

In a front page article in the well known German weekly "Die Zeit" (No 49 of December 1, 2005, p1) with the heading: "Unreasonable profits, a new generation of managers is threatening social peace" **Ulrich Greiner** asks whether ethical standards are an economic virtue. The reason for his considerations are recurrent reports of the burgeoning profits of enterprises combined with announcements of massive lay-offs.

According to Greiner it is proper and decent to let those who have contributed to creating profits share in them. It is totally unacceptable to announce profits and at the same time to downsize / cut back the labour force.

Greiner sees this as an unscrupulous focus by managers on economic reasoning, which they have obviously learned at Business School. Managers perceive their mission as being one of making short term profit within a given period of time and in a limited field. In this model there is no room for ethical standards as a guiding virtue. They do not show responsibility for the community or for the country. The issue of managers sharing risks and losses is left without an answer. On the other hand, the workers' risk of losing their jobs is very real, even if softened by legal protection against arbitrary dismissal and social security arrangements.

Article 14 sub section 2 of the German Federal Constitution sets clear limits: "Property entails obligations. Its use also has to serve common interest". It means that no entrepreneur or manager can pursue exclusively the interests of the owners, especially not if this is detrimental to common interest.

According to Greiner, selfish pursuit of one's own advantage without regard to those to whose disadvantage this would be, leads to chaos. To be successful, economic activities need an intact and prosperous society - certainly not burning suburbs.

Economic thinking has to take societal costs into account, eg negative side effects and long term risks. However, Greiner does not only criticise the few widely visible chairpersons on company boards, but the general mentality of selfish rent-seeking, without considering at whose expense the advantages are realised. In the final analysis taking the common good into consideration turns out to be an economic virtue after all.

In a paper on ethics in the business of banking **Ludwig Poullain** holds leaders in boardrooms responsible for the growing decay of values: "Social market economy is not only the generator but also the supportive system

Journal of Co-operative Studies, 39.1, April 2006: 16-23 ISSN 0961 5784©

(corset) of our social order. It cannot be endangered by the dissatisfied or by philanthropists, fighting for a better world. This can only be achieved by those operating in its centre, if they do not succeed in finding a balance between their self-interest and their responsibility for the country as a whole" (Speech, not given, of an angry man, FAZ No 163, July 16, 2004, p9).

However, international conglomerations owned by shareholders, most of whom originate from different countries, are not really interested in saving jobs in the country in which "their" company is currently operating. Managers in charge of administering other peoples' money and accountable to their shareholders, who want to make profits, have to make profits or otherwise they will lose their jobs.

Do managers lack ethical standards as **Marc Brost et al** (Die Zeit No 49, December 1, 2005, pp25 and 27) believe? Or are many managers the victims of a dangerous heresy, namely that economic success is expressed solely in shareholder value.

In an interview **Helmut Maucher** (Die Zeit No 49, December 1, 2005, p28) talks about "rent-fetishists, who would do anything for a short term increase in quotations on the stock exchange". However, he considers long term efforts to preserve competitiveness as legitimate and necessary.

Maucher softens the general reproach directed at managers for their failure to apply ethical standards by pointing out that most enterprises act with social responsibility and only some cases, discussed in public, give cause for criticism. He stresses that acting with social responsibility is in the long term interest of the enterprise, because such an attitude contributes to a positive image and motivates staff to perform well.

According to **Fredmund Malik** in his contribution "The lost generation – they think in figures and only believe in money: Why many managers fail in our time" (Die Zeit No 49, December 1, 2005, p28), managers do not lack ethical standards but rather the right training. Malik believes that the training acquired in an American Master of Business Administration (MBA) provides the worst possible preparation for leadership positions. For him, the convictions that shareholder value is the principal objective and the ultimate goal of an enterprise "are the two greatest heresies in economic history", which, however, are highly popular and are seen by many as the only modern management theory. In Malik's view this deficiency in the right kind of knowledge cannot be compensated by ethical standards. No enterprise with long term success is managed according to the doctrine of shareholder value. Enterprises like BMW and Porsche, but also segments of the co-operative sector, prove that good corporate governance and unconditional customer-orientation together with competitiveness are the better alternatives.

The perception that in the last analysis only what can be expressed in money terms is important, is called by Malik being 'investor-driven'. This idea is based on the conviction, legitimised by MBA training, that there are no other values than monetary values, this theory having its impact firstly in the economic sphere but finally also in society as a whole. Such economic reductionism (Malik: neo-liberal imperfect knowledge – neoliberales Halbwissen) has never been propagated by any genuine liberal. Liberalism requires that every actor – including managers – is accountable for his/her deeds.

Ulrike Herrmann, head of the economics and environment department of the German daily TAZ (Die Tageszeitung, December 12, 2005, p12) criticises the previous approaches and points out that this lack of ethical standards in managers is not the main problem but rather the prevailing legal framework conditions (legal limits) within which entrepreneurs and managers have to operate. These framework conditions are not set by entrepreneurs and managers but by politicians. It is not the task of the economy but the responsibility of the law-makers to define the limits and to set the rules which entrepreneurs and managers have to respect (eg prohibition of excessive (usurious) rent on capital investment similar to the prohibition of usurious interest rates on loans). However, in a globalised economy, national limits and rules cannot be too rigid, otherwise investors will not be interested in investing in Germany.

Ulrike Herrmann also points out that the interests of the different actors are not as clear and transparent as some people think: Capital on the one hand and labour on the other; profit-maximisation for one and lay-offs for the other. If capital earns high rent, this benefits all shareholders, including small savers and large scale capitalists. As the champion of the export market, German enterprises have to maintain their competitiveness. To this effect, new jobs are created worldwide, while 'expensive' jobs are destroyed or transferred to other locations where labour is cheaper, in the same way as is currently experienced in Germany – based on profit calculations.

Social Economy (économie sociale)

From the perspective of citizens' and workers', economic development is characterised by a widening gap between the rich and the poor. The increasing power of international conglomerates on boundless markets is threatening. It would appear that only the enterprises that give in to the pressure to continuously rationalise can survive. This means increasing their profits by reducing labour costs. Fear of losing one's job results in a loss of confidence, a fear related to publicity for and discussion of cases of gross misconduct and even criminal acts by the management of some large scale global players. This is one of the reasons why the **social economy** movement originating from France has aroused worldwide attention.

Initially, the representatives of social economy intended to fight the capitalist system by offering an alternative economic order of things, based on ethical principles, striving for equity and advocating solidarity and social responsibility.

To strengthen and advance the idea of creating an alternative to capitalism, all user- and demand-oriented organisations working for the benefit of their members/customers rather than seeking profit for capital owners, should collaborate. The components of social economy are co-operatives, associations, mutuals and foundations. All these organisations are promotion-oriented, either promoting the interests of their members (co-operatives and mutuals), promoting the economically and socially weak (common interest organisations and charities) or working on a not-for-profit basis (associations and foundations).

In the meantime, the social economy movement has consolidated its position and received worldwide recognition. In France, special legislation on social economy has been promulgated. In many countries the activities of social economy are given public support. When drafting the regulations for the European Co-operative Society (Societas Cooperativa

Charter of Social Economy, 1982

Article 1
Enterprises of social economy work on a democratic basis. They are established by members linked together by solidarity, with equal rights and obligations.

Article 2
As producers or consumers the members of enterprises of social economy agree on a voluntary basis in freely chosen forms of organisation (co-operatives, mutuals or associations) to accept full responsibility which results from their position as the sole owners of the above mentioned enterprise.

Article 3
In view of the fact that in enterprises of social economy all members are co-owners of the means of production with equal rights, these enterprises strive for establishing new social relations in their internal structure, by soliciting mutual trust and mutual understanding through continuous education and information.

Article 4
Enterprises of social economy stand for equal opportunities and for the right to development, while maintaining their full independence.

Article 5
Enterprises of social economy see themselves as enterprises in which special rules govern the distribution and allocation of profits. Surplus at the end of the financial year can only be used for the growth of the enterprise or for improving services for members. Control of surplus allocation is the exclusive right of the members.

Article 6
Enterprises of social economy make efforts to contribute to harmonious development of society, seen from the individual as well as from a collective perspective.

Article 7
The declared goal of enterprises of social economy is to serve Man.

Europea, SCE), the European Union opted for a text that allows the establishment of European co-operatives as purely economic co-operation among enterprises without any ideological aims or as organisations in which social objectives and a value based management are stressed.

Social economy stands for a concept of an economy with a value related foundation and for a more equitable society. It militates against abuse of power in an economy without ethical standards (Jeantet), offers a user- or promotion-oriented approach as an alternative to investor-oriented economics and propagates value based management, as laid down in the Charter of Social Economy of 1982. An almost identical value base was adopted by the International Co-operative Alliance (ICA) in its declaration on Co-operative Identity in Manchester in 1995:

> "Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others."

Co-operation management without ideological ties and value-based co-operative management

In business administration, many hold the view that there is only good management and bad management. They do not see differences between 'normal' management and co-operation management or even management based on co-operative values and principles (management along co-operative lines). The question of whether or not there is a need for a special business administration of co-operatives or for co-operatives is usually answered with no.

However, during the past several years, specificities of the business administration of co-operating enterprises have been recognised. Differences are seen with good reason. In the case of co-operation among enterprises, two or more economic undertakings establish a joint plant designed to promote the member-enterprises that are supporting the joint plant, ie co-operation among enterprises is a case of promotion- and user-oriented economics. Clear differences can be seen as compared to problem constellations and methods of 'normal', ie individual enterprises, working alone and being as a rule investor-oriented.

Two questions have to be answered:

- Is there a special co-operation management?
- Are there additional specificities of a co-operation management based on co-operative values and principles (management along co-operative lines or co-operative management)?

Special features of co-operation management

There are requirements common to all forms of co-operation among enterprises:

- **Goal setting** by harmonising the goals of the individual member-enterprises and the joint plant.
- Agreement on intensity and scope of **mutual obligations**.
- **Transparency**, ie the obligation to publish data and returns of a prescribed minimum contents.
- **Protection of minority rights.**
- **Protection against financial risks**, eg where assets and management of the mother society and daughter societies are not clearly separated. In case of trans-national co-operation this risk is growing.
- **Choice of the adequate control mechanisms**, special forms of audit of user-oriented enterprises and co-operatives, such as performance audit in addition to financial audit, assessment of the quality of management and the degree of achievement of member-promotion, measurement of member-oriented efficiency, promotion plan – promotion report, social balance, measurement of development-oriented effectiveness, bilan sociétal (a special method developed in France to assess economic and social success of co-operatives by means of a detailed catalogue of indicators), control powers allotted in proportion to capital contributions or independent of capital contributions.
- Where a hub firm exists: Need to present a **consolidated report**, which is more than the sum of individual data. How can the influence of one enterprise on the other be expressed? Which power structures are in place? How are profits allocated? What is the status of joint reserves and what purpose do they serve?

Co-operative management

Are there differences between the management of non-ideological co-operation among investor-oriented enterprises on the one hand and the management of co-operation along co-operative lines? This leads to more questions that will be answered in the following mainly from a German perspective, knowing full well that in economic undertakings globalisation has done away with national boundaries.

- Does commercial law apply to all enterprises including co-operatives, although according to section 17 subsection 2 of the German Co-operative Societies Act co-operative societies are only **deemed to be** commercial enterprises, hence are different.
- How to classify co-operatives under competition law? Are co-operative societies cartels, the legitimate objects of which are to co-operate in an organised manner, with obligations to co-operate laid down in by-laws or in agreements to act in a concerted way? Are co-operative societies legal and desirable forms of co-operation or are they prohibited cartels that may be allowed only in special circumstances and are subject to prudential supervision?
- Which forms of audit and control are best suited for co-operative societies and their associations or federations? Are there forms of de facto control, eg the right of certain groups of members to appoint board members?
- How should books and accounts be kept? Group or consolidated accounts? On the basis of economic data or only based on legal minimum standards? How can a true picture of the entire group be conveyed, which will also serve as a basis to assess creditworthiness (rating) of the group as a whole.
- How can co-operative identity be preserved in group enterprises?
- Can those studying the relatively new subject of co-operation management benefit from the long experience of co-operation management along co-operative lines? Are there synergetic effects?

Exclusion of co-operation along co-operative lines from research and teaching in the field of co-operation management

In a time when co-operation among enterprises is booming and is widely practised in its different forms from project groups over franchising agreements and joint ventures to strategic alliances, it is surprising to note that in current textbooks on business administration and in lectures on this subject matter, co-operation along co-operative lines is usually omitted. Economists show little interest in one of the oldest forms of organised co-operation between individual economic units (households and businesses) in a joint plant. This is all the more surprising because prevailing conditions – heavy competition on boundless markets, high mobility of capital and labour – call for co-operation along co-operative lines, where locally rooted enterprises with limited mobility can only survive by organised co-operation.

Co-operatives have always served as a means of overcoming weaknesses due to small size facilitating as they do adjustment to changing conditions, permitting them to benefit from economies of scale and/or from outsourcing of functions to joint facilities that can be carried out better together, at lower cost or at all. To join a co-operative does not create involuntary dependence, because co-operatives are based on voluntary and open membership. Unlike in a combination, in co-operatives and co-operative systems initiatives, decision-making and control run from the bottom to the top. During a meeting at the DZ BANK AG in Frankfurt in 2005, participants found a writing pad on their table with the highly appropriate slogan: “Better together” (Gemeinsam geht mehr). A similar motto was chosen by the German Chancellor **Angela Merkel** in her New Year’s address for 2006: “Together we are stronger” (eg in Frankfurter Allgemeine Zeitung, FAZ, December 30, p5).

Development of co-operative management in different types of co-operative structure

When looking at the practical performance of leadership in large co-operative societies, a trend can be observed in which the specificities of co-operation along co-operative lines are dismissed as being a no longer applicable heritage. Members are seen in the first place as customers and shareholders. Business with non-members is growing. Large and ‘open’ co-operatives (ie open for every consumer) have converted themselves from member-oriented enterprises to general interest enterprises, employees’ enterprises or companies. Some of these co-operatives, which have opted for conversion into companies, have in the meantime been dissolved or taken over by competitors. For such co-operatives there is no (more) need for a special form of co-operation management along co-operative lines.

Already in 1966 Eberhard Dülfer in his description of three structural types had classified this type of co-operative society as ‘market linkage co-operative’, even though important features of a co-operative like decision-making and control by members and co-operative corporate culture were weak or even absent and the co-operative profile was blurred.

Profession based co-operatives, membership of which is restricted to persons having a specific professional qualification and corresponding interests, like co-operatives of retailers, craftsmen or members of the liberal professions (medical doctors, pharmacists or tax consultants) referred to as ‘closed’ co-operatives tend to operate as a neutral economic structure, ie without an ideological basis and with a weak co-operative profile. Members of such closed co-operatives are mainly interested in the economic advantages of co-operation. Co-operative origins and ideas remain in the background while requirements of economic efficiency prevail. This leads to a process of banalisation moving from economisation to commercialisation and companisation. The inclination of members to practice group solidarity in case of need is decreasing.

Another type of co-operative can be found where the need to co-operate within an integrated system is strong (eg in the case of winegrowers’ co-operatives), because already for reasons of cost, the technical know how and modern technology cannot be afforded by the individual member’s business but only by a joint plant. Such co-operatives correspond to the ‘integrated co-operatives’ of Dülfer’s structural types.

The majority of closed co-operatives and small co-operatives work for decades with a relatively strong co-operative profile: Member support, participation of elected, honorary members’ representatives on the governing and controlling bodies. They try to maintain their co-operative profile. This means to be locally present, to work closely to the members, making efforts to generate, maintain and strengthen members’ trust in the leadership and in the system, offering members exclusive advantages and preferring vertical integration to merger. In these co-operative societies, co-operation management along co-operative lines is daily practice, even though of different intensity.

Importance of leadership

Depending on their orientation, directors and managers of co-operatives will perceive co-operative corporate culture as a burden of the past or as a competitive advantage. Where co-operative managers, challenged by heavy competition, follow a growth strategy, the trend towards co-operation without ideology is growing. The internal propelling force typical of co-operative societies, ie to mobilise and satisfy members’ interests, loses momentum. It is replaced by market forces, success criteria becoming no longer offers of co-operative advantage but rather success in the market, measured by market share and profit.

Where the co-operative consciousness of co-operative managers is strong and member-relation management is perceived as the core competency with the aim of ensuring members´ loyalty to the jointly run common enterprise and of offering them exclusive advantages, business with non-members is carried out – if at all – on a limited scale and for purposes of advertising the benefits of membership. Using local presence and closeness to members as arguments, members are encouraged to trust the leadership and the system. This provides opportunities to show the co-operative profile and to underline its singularity and to use it as a competitive advantage. If this is achieved, transaction costs are reduced.

Conclusions

In order to compensate the weaknesses of the market we need well trained managers who do not reduce enterprises to shareholders’ interests and profit maximisation; not for reasons of ideology but because effective management has to follow a different logic. Co-operation management, value based management of co-operative societies and maxims determining the management of social economy enterprises practice this different logic. A recent publication by Friedrich Fürstenberg on “Co-operative work-organisation – innovative potentials and perspectives” (2005) offers interesting insights and recommendations in this field.

If it is one of the topical problems that managers of large international enterprises are forced by the investor-driven system to make short-term profits even though thereby being obliged to carry through spectacular measures of rationalisation like mass lay-offs and shutting down of factories to meet the expectations of their shareholders and to strengthen their own position, co-operative enterprises and social economy offer a genuine alternative programme. In the long run, one sided emphasis on reward of capital cannot be the solution. Without an efficient work-organisation and motivated staff, economically efficient investment of capital is as impossible as it would be in the case of an absence of an effective legal system and strong social structures. In the case of co-operative societies, profit expectations of anonymous investors do not play any role, because the owners of the capital and the users of goods and services produced by the enterprise are the same persons. Long term availability of the enterprise enabling them to render promotional services to members has priority over profit. Instead of being focussed unilaterally on capital reward, managers of co-operatives and social economy enterprises are bound to respect basic values among which striving for equity, social responsibility and care for the community are as important as efforts to safeguard the continued existence and development of the joint enterprise.

Irrespective of whether managers are perceived as victims of the shareholder value system or as badly or wrongly trained, or whether they are seen as persons without values, all would be able to contribute more fully to the social and economic development of the country and of the world, if they would learn holistic thinking instead of overemphasising capital and underemphasising labour, if they would learn to comply with the principles of a solid value base (code of conduct, good governance, charter of discipline within an integrated system), to practice co-operative management and to deal with a co-operative work-organisation, because – as can be learned from the example of French social economy:

We work better together, together we can achieve more.

In France, influential politicians are taking an interest in this alternative form of doing business. Special legislation has been introduced and special institutions created to support and promote social economy. At the same time, in France the gap between profits of enterprises and wages of workers is not as large as in Germany (cf Zeit-Grafik: Labour versus Capital, in: Die Zeit No 49, Dezember 1, 2005, p27).

This article was first published with the title “Gemeinsam geht mehr Management, Moral und Kooperation in Zeiten der Globalisierung” by the Austrian Co-operative Federation (Schulze-Delitzsch) in Vienna in its journal “Die Gewerbliche Genossenschaft”, issue 1, 2006, pp2-10. The article was translated into English for the author by Mrs Gwynneth Llewellyn for publication in the Journal of Co-operative Studies.

Notes

Brost, Marc/Gehrmann, Wolfgang/von Heusinger, Robert/Lamparter, Dietmar H/Meyer-Timpe, Ulrike/Storn, Arne/ Tenbrock, Christian: Manager ohne Moral? Rekordgewinne und trotzdem immer weniger Jobs: Die Wirtschaftselite hat das Gefühl für ihr Land verloren, in: Die Zeit No 49, Dezember 1, 2005, pp25 and 27.

Charter of Social Economy, Declaration of the National Federation of French Mutual Insurance Organisations, the National Federation of French Co-operatives, the Co-ordination Committee of Mutual and Co-operative Education Services, the National Co-ordination Committee of Mutual Insurance Organisations, Co-operatives and Common Interest Associations as well as of Foundations and other organisations, Paris, May 22, 1982. Source: Revue des Etudes Coopératives, No 9, 3rd Trimester 1983, p114. Translation by the author.

Dülfer, Eberhard: Strukturprobleme der Genossenschaft in der Gegenwart, in: Forschungsinstitut für Genossenschaftswesen an der Universität Wien (Ed): Neuer Tendenzen im Genossenschaftswesen, Wiener Studien, NF Bd 1, Göttingen 1966, pp3-54.

Fürstenberg, Friedrich: Kooperative Arbeitsorganisation – Innovationspotenziale und Zukunftsperspektiven, München und Mehring 2005.

Greiner, Ulrich: Wahnsinnige Gewinne, eine neue Generation von Unter-nehmern spielt mit dem sozialen Frieden, in: Die Zeit No 49, Dezember 1, 2005, p1.

Herrmann , Ulrike: Die neoliberale Falle, in: Die Tageszeitung (TAZ) December 20, 2005, p12.

Jeantet, Thierry (2001): The French Idea of Social Economy, Basic approach and Entrepreneurial Implementation, in: Harbrecht, Wolfgang (Ed): The Future of Co-operatives in the European Union at the Threshold of the 21st Century, Forschungsinstitut für Genossenschaftswesen an der Universität Erlangen-Nürnberg, Veranstaltungen Band 20, Report on the 14th International Conference of Co-operative Science, Nuremberg 2000, Nuremberg 2002, pp65-76.

Malik, Fredmund: Die verlorene Generation – Sie denken in Zahlen und glauben nur ans Geld: Warum viele Manager heute versagen, in: Die Zeit No 49, Dezember 1, 2005, p28.
Maucher, Helmut: Man braucht Rückgrat, Interview in: Die Zeit No 49, Dezember 1, 2005, p28.
Münkner, Hans-H: (Hrsg.):"Nutzer-orientierte" versus Investor-orientierte Unternehmen – Argumente für eine besondere Betriebswirtschaftslehre förderungswirtschaftlicher Unternehmen, Marburger Schriften zum Genossenschaftswesen 97, Göttingen 2002.
Poullain, Ludwig: Ungehaltene Rede, in: Frankfurter Allgemeine Zeitung (FAZ) No 163, July 16, 2004, p9.
Zeit-Grafik: Arbeit versus Kapital, IXIS CIB, in: Die Zeit No 49, Dezember 1, 2005, p27.