

## **The Compatability of the Three Cs**

### **The Fundamental Challenge**

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As you may have guessed from reading the title for my topic, I am of a mind that believes Competition has no need to be in conflict with Cohesion. And, as I hope to outline, the road to their mutual conciliation lies, by and large, through various forms of Cooperation.

Much has been said regarding cooperation. Probably enough for us to be forgiven if we sometimes wonder whether we are thinking of the same term. The concept of cooperation has many different implications, depending on the particular context within which the principle is meant to operate. Respectfully, I ask you to consider whether somehow we may not be neglecting something that is fundamental to any kind of genuine cooperation. This something lends the activity its essential dimension – the coexistence of other players in the game.

So, turning to Horst Hanusch's wide embrace of the subject, maybe you will agree that, by allowing ourselves to be specifically conscious of the emphasis this essential dimension gives to his proposals, we can see almost instantaneously that they appear to have greater viability than we might otherwise have perceived.

For instance, when we think of what will be required to progress the Lisbon 2000 Agenda along the new tracks set out by President Barroso and the EU Commission, we can but qualify our assessments of the viability of the new approaches. Should the implementation of the new courses of action be left to the snail's pace machinations of the 25 governments involved things would not look very good. However, once these governments accept that the cooperative process of aiming at a consensus and ensuing decisions implies the recognition that all, not just the few who are used to getting their way, have to be accommodated, their effective cooperation becomes much more viable.

When we look at competition in business, the situation is more complex, isn't it? Or is it? Isn't this a much over-simplified presumption? I, for one, do not subscribe to the myth that has

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taken root and partially paralysed the decisiveness of the European Union aim to maintain Social Cohesion as an endemic part of its economic model. Instead, I contend that this myth only needs to be debunked.

*The aims of enterprise and those of concern for the wellbeing of human beings are relatively easy to reconcile. As long as we recognize what are the basic aims for business activity.*

It may seem trite to discuss such a question, when we might all be expected to have a well-established concept of it in our minds. Nonetheless, I think it probably essential to do so, if only because we may tend to overlook its underlying importance in matters of competition. First of all, perhaps, by virtue of the fact that it lies at the root of why a business needs to be competitive. Allow me, therefore, to propose a ‘thinking out of the box’ definition that we could accept as a basis for this discussion.

*The basic purpose of an enterprise is to make sufficient profit for it to be worth the time and dedication of the people, both corporate and individual, who devote their energies and skills to its activities. This implies that it must also generate enough profit to pay for the use of the capital and financing necessary for it to start and continue its business existence as a viable enterprise. This twofold aim is, I submit, all that is essential. All else is additional.*

As an aside, I would also submit that the maintenance or creation of a public service, utility or national industry – of whatever kind – equally requires to make sufficient profit to maintain its viability as a state, regional or municipally owned entity. Or justify receiving subsidies, because its continuance in existence is in the public interest. Where the funds for the subsidies are to come from is, of course, a separate consideration.

Returning to the main question of why a business needs to be competitive, again the ‘thinking out of the box’ answer has to be elementary. It requires to compete with others in a limited market, in order to be able to sell its services or material products in sufficient number to make the required basic levels of profit, or else it will cease to be viable. Again, but this time with regard to the need to compete, I suggest that this is all that is basically essential.

The next consideration, at this juncture, is how these activities affect the social structure of the community. Here I beg to return your attention to the third tenet I put forward at the beginning of my 'EUnomics and Competition Strategy'<sup>2</sup> submission a year ago. Namely:

**The paramount justification for the development of economic strategies is raising the potential standard of living for the poorer eighty-percent of the population.**

In furtherance of this tenet I contended that "If this is continuously borne in mind, the strategies will tend to produce an increasingly cohesive effect. Therefore, it is not strategies for economic growth that need to be envisaged. It is strategies for economic development. For economic development to take place the underlying rate of growth has to be self-induced and self-sustaining, so that changes in the structures of the manufacturing, services and technological industries will yield higher productivity and higher real income per working person."

Thus it is clearly in the interests of the community that new, viable, enterprises be created and, by virtue of their profitability, sustain and further develop their own existence.

**What is to be done to bring about this state of development affairs?** The first steps will have to involve incisive decisions to refocus the aim of dynamically competitive business. In principle, this needs to move beyond Hayek's process of discovery. And, I submit with full conviction, it will have to imply a development of cooperative activities that are built upon the kind of patterns of deepening divisions of labour envisaged by Herbert Giersch in his address to the International J.A. Schumpeter Society in Münster (1994)<sup>3</sup>.

A full treatment of this theme is outside the possibility of a short communication such as this. Thus, at this juncture, I simply seek to show how a responsible approach to economic development could furnish a viable substitute for the competitiveness that can so damage the social infrastructure and cohesion of any community. It is in the pursuit of further research than I have already done that I think will lie one of my main contributions to the Forum we are thinking of setting up. The other contribution would stem from continuing my previous concentration on promoting a change in the creed that claims that the main aim of corporate

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<sup>2</sup> *Galileu, Revista de Economia e Direito*, Vol. IX, Nº 2, 2004. ISSN 0873-495X

<sup>3</sup> Lessons from German Experience.

management is the maximisation of profit. Particularly when the ‘acquisition game’ becomes one where the aspect of human relations is for all intents and purposes ignored.

To begin with, I submit that there is often a highly viable alternative to a merger or other kind of acquisition. This alternative, a cooperative approach to dealing with the need to spread one’s market, will usually have greater chances of long term success. In this respect, it is worth remembering that mergers frequently result in the eventual destruction, rather than construction, of value – most frequently by virtue of the differences in cultural contexts for the enterprises involved. Moreover, global synergies in either marketing or administration seldom materialize on a lasting enough basis to have made the exercise worth while.<sup>4</sup>

This cooperative approach is something much more familiar to entrepreneurs than we might at first imagine. It is particularly present when people seek to develop an innovative process and enlist the participation of others in the related venture. Curiously enough, it is also something engaged in by people involved in associations to preserve some of their mutual cultural heritage.

Genuine or what I call Deep Cooperation, it seems to me, has to imply partnership. How close this partnership may turn out to be will depend, quite naturally, on how much mutual understanding and goodwill exists between the parties involved. Nonetheless it is indeed partnership that is implied whenever and wherever cooperation is invoked. This principle applies whether we are considering cooperation between power blocs, between one or more nations, regional authorities or, at the basic level, between individuals.

Cooperation defuses the destructive elements of excessive competitiveness. Because it recognises and acknowledges that the other parties involved have interests and a right to these interests. It thereby constitutes a bridge between the needs for the creation of competitive enterprise and the requirements to maintain the viability of other enterprises that make up the fabric of a community, whether this community is global, national, regional or simply municipal.

Deep Cooperation is an extension of the basic principle of cooperation. It allows other businesses to thrive, using their own comparative advantages. Its aim is to enable each extant

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<sup>4</sup> See, for example, the Hewlett Packard story from 2000-2005.

enterprise to maintain a strong presence within a competitive world, from which all realize better results and greater share values. At the same time, each remains in a position to try to be the best at playing its specific game. A football team exemplifies what is necessarily endemic: the coordination of roles and efforts to attain goals.

What tends to be overlooked, in this extremely fast-changing world scenario is the serious threat posed by the ever-growing world population. Either there will be greater numbers of unemployed people or we shall have to create enterprises at a much greater rate than has heretofore been possible. At the same time, instead of destroying existing enterprises that, with good management, are still viable, every approach has to be used to maintain them in existence. To do this it will be necessary to make capital, finance and management skills available so that the enterprises can continue to provide productive roles for the often very large numbers of individuals who have contributed to their previous growth and existence.

Deep Cooperation is a catalyst for a better world, in which the economic advance of those that are involved in cooperating rejects the winner-take-all mentality – by virtue of their making agreements to sell to each other those goods or services that the other is better at creating. The resultant cross selling increases cash flows for both entities. It is a prime example of the Socially Responsible Capital approach that I have been arguing in favour of for several years.<sup>5</sup>

It is interesting to note that some sizeable international corporations are already starting the transition from predatory competitors to cooperating enterprises, happy to live side by side with a host of other, large and small companies and develop with them along parallel paths. Early evidence of this is apparent when we look at the boom in outsourcing by big multinationals as a better alternative to more vertical development of their information technology supply.

It is also evidence of the beginning of the New Era, when capitalism will create ‘bridges for peace’ with the less developed world. Initial steps in this direction are seen when looking, for instance, at ethical ratings for the 25 largest corporations in the United States. Merck, the giant drugs company was one of those that were given a Triple A rating by Management & Excellence somewhat over two years ago. This was probably due to the approach taken by its

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<sup>5</sup> *Socially Responsible Capital: To Mitigate Globalization*, EdiUAL, 2002

chief executive, Ray Gilmartin, as he follows the belief of its founder, George W. Merck, that a firm can do well by doing good.<sup>6</sup>

Deep Cooperation is an intrinsic element of the socially responsible use of capital. As I have no shame in reiterating time and again, considering the effect that management decisions would have on the humans who will be affected by them is at one with a good neighbour mindset. It reaches much further than what is known as Corporate Social Responsibility (CSR), which to my mind is often little more than a public relations exercise tied to window dressing for sales and marketing. The good neighbour element of Socially Responsible Capital, however, involves a modified approach to the bottom line, wherein the central precept is the optimisation, as opposed to short-term maximisation, of profit.

In essence this means that the management of enterprises cater for two sets of interests on an equitable basis. Both the interests of the shareholders and the interests of all the people who collaborate in producing the profits are catered for. It is worth noting that, by virtue of a far more motivated work force, the likely result is a more stable level of profits in both the medium and the longer terms. In my visualisation, it is also the kind of Christian approach to business that can enable the EU to achieve economic development with social cohesion.

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<sup>6</sup> *Face Value*, The Economist, December 14, 2002, p.63