

GLOBAL CRISIS: SEARCHING THE ORIGINS BY BUSINESS ECONOMICS

POLLIFRONI Massimo ¹

University of Turin

Abstract

Aim and topic of the paper is to research the causes of the current global crisis, which manifests itself in financial terms, but whose origin is due to the ethical model of reference: the question is evident both in macroeconomics and in Business Economics. Just from this last point of view, the article will attempt to highlight what should be the correct drivers of ethical management for companies oriented towards an internationalization of their business.

Key words: *Business Economics, Business Ethics, Corporate Social Responsibility, Globalisation, Sustainable Development*

JEL classification: *M14, M16, M21*

1. Introduction: an attempt to definition of business company

The globalisation is an economic phenomenon, that conditions especially economic integrations, but it makes also problems for many cultures around the world, because there is incompatibility between human relationships and the extreme exploitation of resources and the maximization of the concept of competitiveness on liberalized markets (Boyer et al., 1996). Usually the study of globalization has affected the social and economic sciences: this paragraph is dedicated to present the globalisation following a Business Economics approach, where the starting point of the path is provided

¹ Associate Professor, Faculty of Economics, Department of Management, University of Turin, Italy, E-mail: pollifroni@econ.unito.it

by the declination of business company (or business enterprise, or simply company, or enterprise).

The company and its life are the fundamental topics for the Business Administration studies: the companies, which are considered long-term institutions, have as objective the direct or indirect satisfaction of human needs, so distinguishing themselves in “*supplying companies*” and “*production companies*”, these two aspects coexist in the mixed companies. According to the traditional “*Zappa’s approach*” (Zappa, 1926), the Business Administration studies “(...) *the conditions of the existence and expression of the life of the company* (...) (Coda, 1985), that make the company a non-contingent entity but “*established to last*”. The companies are the instrument through which we operate in the economic field, consequently they reflect the expression of the economic activity aimed to satisfy “*needs*” that require, in conditions of “*limited tools*”, “*economic goods*” in a systematic “*create and consume*” process (Onida, 1947). The above mentioned definition of company is the classic definition in the Italian Business Administration that, with reference to the object of the activity – represented by the general goal necessary for the satisfaction of human needs – distinguishes a company according to the following classification:

- production companies for the exchange market (or enterprises); the scope of production companies is to create richness or to achieve a profit to destine, subsequently, to the fulfilment of distribution needs;
- supplying companies (or consumer companies) the aim of supplying companies, on the contrary, is to provide for the fulfilment of those needs, either through distribution or through consume expenditure: they gain their denomination from the money expenditure phase or from the distribution of profits or incomes, that usually precede the consume phase.

In order to complete the sentence above, we point out the evolution of the idea of company, promoted by the recent documents edited by the “*Società italiana dei Docenti di Regioneria ed Economia Aziendale – Italian Society of Teachers of Accounting and Business Administration*”, in which we identify a company body to be intended – always and in any case – as a “*production fact*” (Coda, 2006): both the consumer companies and the enterprises carry out the economic activities of “*consuming and creation*”, acquisition, maintenance and distribution of services and goods under limited resources conditions.

In the economic system, exchange relationship between the two indicated company categories are established in the “*remuneration process*” of the production factors employed, factors that are usually made available by the consumer companies in terms of work and savings, and in terms of offer for market exchange of goods and services by the enterprises: in this system the mutual flow of “*real*” exchanges of goods and services, made possible by the use of money as mean of compensation, are highlighted. The distinction between consumer companies and enterprises is used as a theoretical referential model, as the consumer production, acquisition, maintenance processes are common to all companies and “*pure*” consumer companies or “*pure*” enterprises do not exist. The enterprises, for example, add to the market commercial exchanges, incidental allocations and liberalities on social, aid and cultural promotion basis for employees, partners, clients, suppliers and other subjects more or less involved an interested in management.

The consumer companies, on their side, often perform, apart from their specific allocations, commercial activities in terms of market exchange, transferring, under compensation, goods and services to be used for financial gatherings to be addressed in the institutional activities. In the end and after considering the objective characteristics of companies, it is possible to outline a third category, that enrolls combined (mixed) companies in which both the specific activities of consumer companies and enterprises coexist. Business Administration individuates, besides, according to the distinctive characteristics of their subject, the category of public companies in antithesis, on a social-economic basis, with private companies. This distinction between public and private companies is based on two fundamental criteria (Puddu, 2001): the economic and legal criteria. The economic criterion analyses the nature of the economic subject represented by people, that is those people who “(...) *hold and exercise the wilful power and connected prerogative and right to choose and decide about the management of the company (...)*” (Catturi, 1968). But the legal criterion classifies the company on the basis of the private – or public – nature of the main shareholder, the subject who has control over the governance of the company:

- the public enterprise is under a public control;
- the private enterprise has its governance controlled by a private subject.

As already mentioned, the real economic system has to be intended as “*mixed*” since neither the “*collective*” nor the “*market*” form can be

considered as “*pure*” models. Compared to the described model based on two sectors – public and private sectors – it can be observed that a “*third sector*” is identifiable formed by “(...) *subjects not ascribable to the State, as they originate from private initiative and operate with resources and in the interest of privates; not ascribable either to enterprises as they do not operate according to the logic of exchanges for profit (...)*” (Ferrero, 1968). The economic-corporate nature of the “*Third sector*” can be better interpreted through a joint analysis of the principles for company classification with reference to their objective and subjective characteristics. The simultaneous classification of the companies considered both from the actual objective economic activity performed, consumer items or production, and from the subjective classification as public or private, allows – in the end – to synthesize the following “*objective-subjective*” theoretic configurations. The model identifies the following four “*objective-subjective*” company configurations (Puddu, 2001; Anselmi, 1996):

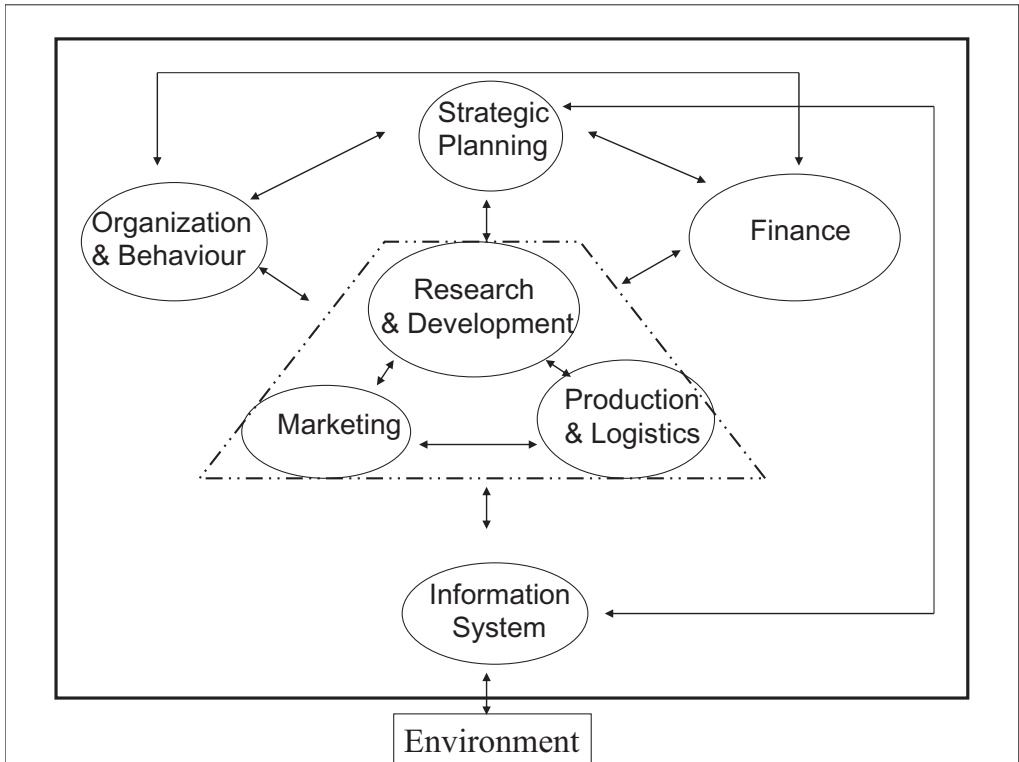
- Public Administrations, consumer companies with no profit making or distributing goals, whose governance control is performed by public juridical subjects (i.e. Regions, Public Universities, Local Municipalities, etc.);
- Public Enterprises, companies that operate for the general market, which are basically public even if legally they are structured as business companies (i.e. Consip S.p.A., Sogei S.p.A.: in these Italian cases the main shareholder is the Ministry of Economy and Treasury);
- Private Enterprises, companies that produce goods for market exchange, with profit making and earn sharing goals, legally based on private assets (i.e. companies quoted at the stock exchange whose governance control is performed by private juridical subjects: these enterprises are also called “*public companies*” in the Anglo-Saxon model of Business Economics);
- Not-for-profit Organizations, consumer companies with no profit making or distributing goals, whose governance control is performed by private juridical subjects [i.e. Non-Governmental Organizations (NGOs), Non-Profit Organizations (NPOs), etc.].

All these kinds of companies – with reference to their internal structure – can be studied following a “*functional study approach*” that identifies two “*Corporate Functional Macro Areas*” (Figure n. 1):

- 1) the “*Core Functional Areas*”;
- 2) the “*Integrative Functional Areas*”.

The first cluster – “*Core Functional Areas*” – includes “*Research & Development Area*”, “*Marketing Area*” and “*Production & Logistic Area*”: these areas have specific characteristics depending on the activities carried out. The second cluster – “*Integrative Functional Areas*” – includes “*Finance Area*”, “*Organization & Behaviour Area*”, “*Strategic Planning Area*” and “*Information System Area*”: these areas have characteristics common to all types of enterprises, regardless of the business activities.

Figure 1: The approach that identifies the “Corporate Functional Areas”



Source: (Ferrero, 1987)

2. A Business Economics approach to present the globalization: discussion and analysis

Following the “*functional study approach*” – illustrated in the previous pages – now it is possible to identify four “*business models*”, with reference to the activities of corporate relocation (or internationalization of business):

- “*Local company*”;
- “*Budded company*”;
- “*Partial relocated company*”;
- and “*Hollowed company*”.

These “*business models*” models are explained in the following points.

The “*Local company Model*” presents the following characteristics:

- these enterprises don’t realize global strategies;
- the business continues to be allocated only inside the domestic market;
- these companies – also so called “*Local Players*” – suffer passively the international competitiveness;
- in the long term these companies may have strong problems of survival resulting from the globalization of markets.

The “*Budded company Model*” presents the following characteristics:

1. these subjects realize full global strategies;
2. these companies actively address themselves to the international competitiveness;
3. new enterprises are created around the world, but the holding (or “*Parent company*”) maintains the historical operational structure;
4. this approach does not cause a negative impact in terms of employment.

The “*Partial relocated company Model*” presents the following characteristics:

- these subjects realize partial relocation strategies;
- these companies actively addressing the international competitiveness;
- in this case the corporate delocalisation regards some “*Corporate Functional Area*”, or some business unit, or some business process, etc.;

- this model has a partial negative impact in terms of employment (with reference to the Nation of the “*Parent company*”).

The “*Hollowed company Model*” presents the following characteristics:

- these subjects realize full relocation strategies;
- these companies actively addressing the international competitiveness;
- in this case the corporate delocalisation regards all “*Corporate Functional Areas*”, or all business units, or all business processes, etc.;
- this model has a full negative impact in terms of employment, because the “*Parent company*”, becomes a “*Hollowed company*”.

The next step is to identify which of these models goes towards an ethical model of globalization. In the first instance it is possible to say that a corporate organisation has an ethical outline when – not only – it respects the laws, but it also manages its own business respecting the interest of the various stakeholders: “*business ethics*” is closely tied to issues of “*sustainable development*” and that of “*corporate social responsibility*”. The first issue – regarding the concept of “*sustainable development*”, first introduced in 1987 by the World Commission on Environment and Development (WCED) – is defined as “(…) *the economic and social development that doesn't compromise the environment and the natural resources the continuation of human species and the future development depend on (...)*” (WCED, 1987).

Starting from this definition it was possible to explain sustainability in three different ways: “(…)

1) *environmental sustainability: the ability of preserving the quality and the reproducibility of natural resources;*

2) *social sustainability: the ability of assuring human welfare and growth opportunity respecting human rights and labour law;*

3) *economic sustainability: the ability of creating incomes, profits and stable and durable jobs (...)*” (CNDCEC, 2009).

About the second issue – the “*corporate social responsibility*” – European Commission defines the Corporate Social Responsibility as “(…) *the voluntary decision to contribute to the progress of the society and to the defence of the environment, integrating social and environmental problems*

into the corporate operations and the interactions with the stakeholders (...)" (EC, 2000). In October 2011 the European Commission published a new policy on "*corporate social responsibility*". It states that to fully meet their social responsibility, enterprises "(...) should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders (...). The aim is both to enhance positive impacts – for example through the innovation of new products and services that are beneficial to society and enterprises themselves – and to minimise and prevent negative impacts (...)". (EC, 2011).

The two concepts investigated – "*sustainable development*" and "*corporate social responsibility*" – have a common denominator in the environmental and social sustainability, while the third point of view – economic sustainability - is considered:

- in macroeconomic terms, following the concept of "*sustainable development*";
- in business operations and core strategy, within the concept of "*corporate social responsibility*".

In the latter case, the economic sustainability can be ensured only by the presence of a constant and continuous "*corporate profitability*" resulting from the business operations and the core strategy. So for defining a model of globalization oriented to "*business ethics*", it is necessary that two conditions are met jointly (Figure n. 2):

- 1) there must be a constant and continuous attention to the value creation for stakeholders and this condition match the model of the "*corporate social responsibility*" (csr) (Carroll, 1979);
- 2) there must be a regular and fair return on capital, with constant monitoring of the most important key financial ratios, with particular reference to the "*corporate profitability*" (cp), because Business Administration observes the company like a non-contingent entity "*established to last*" (as has been previously emphasized).

Figure 2: The Business Ethics Drivers

BUSINESS ETHICS DRIVERS	DEFINITION	POTENTIAL OUTCOMES			
=	=	=	=	=	=
<u>CORPORATE SOCIAL RESPONSIBILITY</u>	Enterprises should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders.	= driver is present	driver is absent	driver is present	driver is absent
\cap	\cap	\cap	\cap	\cap	\cap
<u>CORPORATE PROFITABILITY</u>	Enterprises must have a regular and fair return on capital, with constant monitoring of the most important key financial ratios (with particular reference to the "corporate profitability").	= driver is present	driver is present	driver is absent	driver is absent
=	=	=	=	=	=
<u>BUSINESS ETHICS</u>	POTENTIAL OUTCOMES	<u>Model oriented to Business Ethics</u>	Model not oriented to Business Ethics	Model not oriented to Business Ethics	Model not oriented to Business Ethics

Source: (Development proposed by the Author)

For theorizing a processes of globalization oriented to “*business ethics*” the two drivers must be present jointly, because:

- the only exclusive presence of the “*corporate social responsibility*” (csr) does not always guarantee business continuity;
- while the only exclusive presence of the “*corporate profitability*” (cp) does not always guarantee that enterprises “(...) *should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders (...)*” (EC, 2011).

This theorization may be explained using the following a formula:

$$\boxed{\text{(be)} = \text{(csr)} \cap \text{(cp)}}$$

with:

- (be) = “*business ethics*”;
- (csr) = “*corporate social responsibility*”;
- (cp) = “*corporate profitability*”.

Unfortunately, the current globalization has focused more on “*corporate profitability*” (cp) and less on “*corporate social responsibility*” (csr), favouring models previously defined as “*Partial relocated company Model*” or/and “*Hollowed company Model*” (Rodrik, 2011): the final part of the paper is dedicated to explore these concepts.

3. Conclusions

The contents of this article has focused in identifying the causes of the current global crisis, which manifests itself in financial terms – with effects in the economic and social field (Tileaga, 2010) – but whose origin is due to the ethical model of reference: the question is evident both in macroeconomic terms and in Business Economics approach. Just from this point of view, the article has attempted to highlight what should be the correct drivers of ethical management for companies oriented towards an internationalization of their business.

Following a “*functional study approach*” the paper has defined four business models, with reference to the activities of corporate relocation: 1) “*Local company*”; 2) “*Budded company*”; 3) “*Partial relocated company*” and 4) “*Hollowed company*”.

Then our proposal has identified two drivers, which must be met jointly in the processes of globalization to ensure “*business ethics*” (be):

- the “*corporate social responsibility*” (csr);
- the “*corporate profitability*” (cp).

Only in the “*Budded company Model*” are jointly present the two drivers: this dual presence of the two conditions is the only condition (necessary and sufficient) to ensure a model of globalization oriented towards “*business ethics*”. This condition is not present in the other three cases, because:

- in the “*Local company Model*” the enterprises don’t realize global strategies and in the long term these companies – also

so called “*Local Players*” – may have strong problems of survival resulting from the globalization of markets;

- while in the other two cases – “*Partial relocated company*” and “*Hollowed company*” – could be guaranteed only the corporate durability, but not the corporate social responsibility, because these models have a partial (or full) negative impact in terms of employment (with reference to the Nation of the “*Parent company*”).

In conclusion it can be stated as follows (Table n. 1):

- the case of the “*Budded company*” is included in a paradigm of globalization classifiable as “*Fair Globalization*”;
- while the other two cases – “*Partial relocated company*” and “*Hollowed company*” – represent the alternative paradigm of globalization classifiable as “*Unbridled Globalization*”.

Table 1: Comparative Analysis of the Business Models underlying the different Paradigms of Globalization

Paradigms of Globalization	Unbridled Globalization	Fair Globalization
<u>Business Models Underlying</u>	<ul style="list-style-type: none"> • <u>Partial relocated company</u> • <u>Hollowed company</u> 	<ul style="list-style-type: none"> • <u>Budded company</u>
1. Corporate Target	Profit Maximization	Adherence to the concept of Business Ethics
2. Term Perspective of Corporate Strategy	Short-Term Period	Long-Term Period
3. Profile of Innovation pursued by the company	Financial Innovation	Full Innovation
4. Vision of the Corporate Finance Area	As a Core Functional Area	As an Integrative Functional Area
5. Analysis of the Corporate Budget/Report	Priority to Financial Analysis applied to the Corporate Budget/Report	Priority to Core Business Analysis applied to the Corporate Budget/Report

Source: (Development proposed by the Author)

Further arguments and widening, combined with an experimentation on the field, will be able, therefore, to allow a useful consolidation of this proposal and favour at the same time a working progress process of a new vision of the corporate globalisation referred to the Business Economics.

So, it necessitates a realignment of these imbalances, where the responsibility lies with the policy makers reference (Opreana, 2010): some suggestions for policy makers can be derived from reading the “*World Competitiveness Yearbook*” (abbreviation WCY), that is the world’s most renowned and comprehensive annual report on the competitiveness of nations, ranking and analyzing how a nation’s environment creates and sustains the competitiveness of enterprises (Ogrean et al., 2010). The latest version of the “*World Competitiveness Yearbook*” (WCY) is now available at the following web address: <http://www.imd.org/research/publications/wcy/index.cfm>.

Reasoning on competitiveness, may be useful to report the “*Golden Rules of Competitiveness*” listed in the renowned document; in detail, the “*Golden Rules of Competitiveness*” listed in the “*World Competitiveness Yearbook*”, are: “(...)

- 1) *create a stable and predictable legislative environment;*
- 2) *work on a flexible and resilient economic structure;*
- 3) *invest in traditional and technological infrastructure;*
- 4) *promote private savings and domestic investment;*
- 5) *develop aggressiveness on the international markets as well as attractiveness for foreign direct investment;*
- 6) *focus on quality, speed and transparency in government and administration;*
- 7) *maintain a relationship between wage levels, productivity and taxation;*
- 8) *preserve the social fabric by reducing wage disparity and strengthening the middle class;*
- 9) *invest heavily in education, especially at the secondary level, and in the life-long training of the labour force;*
- 10) *balance the economies of proximity and globality to ensure substantial wealth creation, while preserving the value systems that citizens desire.*

(IMD, 2004).

If these rules - published in 2004 - had been followed by our policy makers, probably our conference – today – would have had another title.

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