Bringing Humanity in From the Cold

The management profession, which has suffered collateral damage from the financial crisis, is in desperate need of repair.

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Investment decisions gone awry. The charade of cooking the company's books. The fall of corporate empires and home foreclosures. Five years into the crisis, economies, families and society are still stumbling and looking for direction.

Our conception of the firm, and its role in society, is also lost in a maze. What made corporations lose their way? What can be done to navigate a route out and set a new course that will prevent the management profession from ever again sinking to such depths?

The book *Towards a New Theory of the Firm: Humanizing the Firm and the Management Profession*, edited by IESE professors Joan E. Ricart and Josep M. Rosanas, attempts to answer these urgent questions with contributions from leading authors from top business schools around the world.

Displaced humanity

Donald Hambrick (Penn State University) and Adam J. Wowak (Notre Dame) point to the economic theories and trends that have come to dominate modern management practice over the past 30 years.

Before the misdeeds and recklessness of Enron and Lehman Brothers, an entire corporate culture and society had started down a slippery slope in the '80s in its adherence to agency theory.

The cult of the free market and the maximization of share value gave rise to a new breed of leaders who were "more individualistic, more materialistic and more narcissistic," say the authors. "We sought foxes as our CEOs and then set them loose in the henhouse."

But it was not just the CEO but whole companies that were reduced to a mere balance sheet operation, state IESE's Rafael Andreu and Josep M. Rosanas. Within such a culture, employees were reduced to self-interested inputs into the corporate machine.

Given the dominance of economic theories based on self-interest and a free market, the business landscape became bereft of humanity, as people became like square pegs being hammered into round holes.

Setting a new course

However, the seeds of change are being planted and in some cases already bearing fruit, says Rosabeth Moss Kanter (Harvard Business School).

She points to well-performing companies that have stepped outside of the short-term, profit-maximizing paradigm and placed people and society at their core: IBM, Procter & Gamble, Tata, Corning Glass and Shinhan Bank, among others, apply employee empowerment, emotional engagement, values-based leadership and other related humanistic management methods.

"These firms have created a framework for guiding decisions that make it legitimate to use social value or human values as explicit criteria."

The definition of the firm is converted into "a vehicle for accomplishing societal purposes and providing meaning for those who work in them, which cannot be calculated only in terms of profits or paychecks."

Building momentum

To keep the momentum going, IESE's Rafael Andreu and Josep M. Rosanas renew the definition of good management. It is built on the concept of the human being as a whole person, with the organization designed to satisfy the extrinsic, intrinsic and transcendent motives of its members.

IESE's Antonio Argandoña takes it a step farther, making the case for corporate social responsibility (CSR) becoming a managerial rather than organizational responsibility.

"By understanding CSR as an ethical responsibility, we can propose a management case for CSR, namely that being ethical and socially responsible is the only way of being an excellent manager," he says.

Another positive trend is stakeholder management, or the notion that the firm has multiple goals in addition to maximizing shareholder value.

IESE's Pascual Berrone explores the factors that make companies more or less likely to pursue proactive stakeholder engagement — taking strategic actions to solve social ills, even if financial gains for shareholders are distant or non-existent.

Much work ahead

Despite these moves in the right direction, there are still many issues to resolve, such as the herding behavior that stifles dissent and sacrifices efficiency, as Bruno Frey and Reto Cueni (University of Zurich) describe in their contribution.

IESE professors Rafael Andreu, Josep Riverola, Josep M. Rosanas and Rafael de Santiago use simulation to show what the evolution of firms could be, depending on their learning, or unlearning, of three combined capabilities: effectiveness, attractiveness and unity.

They show that managers' bounded rationality and imperfect information give rise to "emerging behavior" phenomena, lending insight into how even "excellent" firms can go awry due to their lack of learning.

Closing the Gap

The contributors all point to a glaring gap between the firm and society.

According to IESE Dean Jordi Canals, "The design of a more humanistic view of management is the determination to end the divide between the values that we think are right and useful in our private lives as citizens, and the values that we may bring to the business world."

The authors attempt to close this gap by providing theoretical frameworks that will help the firm to internalize society and humanity, rather than immunize itself from it.

For their part, business schools have the lofty task of developing leaders who are prepared to sign up to this humanistic agenda, and keep the management profession grounded in this better reality.