

Chapter II

Leadership *a multi-ends approach*

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Agenda

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- ▶ The importance to consider the firm as a real entity, a community of persons
- ▶ The importance of leadership in pursuing the primary interest of the firm
- ▶ Guidelines to achieve the multi-ends purpose of the firm consistent with the common good
- ▶ The central role of leadership for corporate purpose: the evolution of leadership style
- ▶ Theoretical foundation of multi-ends leadership: Real entity theory, Stakeholder theory, and theory of the common good and their contribution
- ▶ How to manage followers' orientation: leaders' recommendations

The firm as a real entity and a community of persons

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10/10/22

- ▶ To ensure the survival and growth of the firm it is important to link the concept of corporate objective to the conception of the *firm* (Zingales 2012) and the concept of *man* in business (Caselli 2005)
- ▶ Consider the firm as a a real entity and man as a social being (Di Carlo 2020) is the starting point to provide the firm with an «own interest»
- ▶ The theory that considers the firm as a real entity and *man* as social being bearer of material and intrinsic needs is the common good theory (Argandona 1998)
- ▶ Leadership is linked to the concept of corporate purpose (Bass 1990, Hunt&Conger 1999, Kempster et al 2011)
- ▶ Due to corporate governance and management failures of the last twenty years, the traditional theories on corporate finalism (Freeman 1984, Friedman 1970) have been focus of debate
- ▶ This why a “wrong” objective can lead to behaviours that can jeopardize the business continuity (Cavalieri 2010)

The firm as a real entity and a community of persons

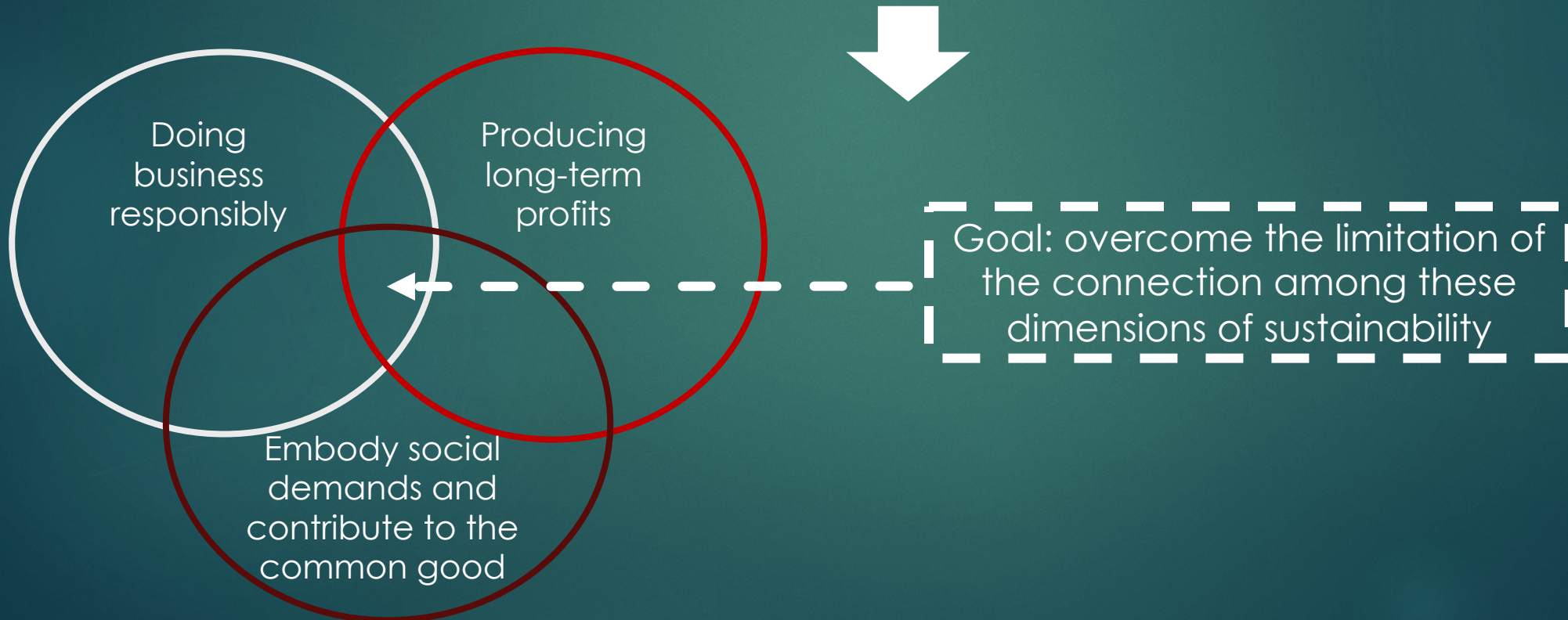
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- ▶ Leadership needs to provide the right way to balance the economic and social dimensions of the firm having as compass the common good of the whole
- ▶ Since the firm has multiple dimensions to take care of (Garriga&Melé 2004), the objective of the firm is a multi-ends purpose consistent with the *common good* (Melé 2008)
- ▶ This corporate objective implies the ability of a leader to catch 1) the interest of the firm 2)the interests of individual considered as social beings 3)the interest of the community

The firm as a real entity and a community of persons

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Consider the firm as a real entity with a specific corporate objective (firm interest), that is different from the sum of its stakeholders' interests, would favour the firm survival and economic growth as well as the common well-being



The firm as a real entity and a community of persons

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SHAREHOLDER THEORY

The firm is an instrument owned by shareholders to maximize their profits (Friedman 1970).

The interests of the firm and its shareholders coincide.

Shareholders' interests could be:

- 1) short-term profit maximization
- 2) sustainable/unsustainable long-term profit maximization
- 3) socio-political interests
- 4) personal/family interests
- 5) miscellaneous interests.

STAKEHOLDER THEORY

The interest of the firm in this case is the sum of stakeholder interests.

Sometimes the interests of some stakeholders go against the interest of the firm. One of the limitations of stakeholder theory is that it leaves too much discretion to managers (Keay 2008).

The claims of different groups may be conflicting (e.g., stockholder demands for greater dividends while employee demands for higher wages).

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FIRM AS A
LEGAL FICTION



LIMIT OF CORPORATE
OBJECTIVE PREVAILING
THEORIES
(MELÉ, 2012)

The firm as a real entity and a community of persons

INSTITUTIONAL THEORIES

Consider the **firm** as a **separate entity from all its stakeholders** and with its **own interests**, rights and duties (Allen 1992; Arthur 1987; Melé 2012). This would give it social responsibilities toward non shareholders, for example employees/suppliers.



CAN FIRM HAVE INTEREST?

Having the impossibility to express needs (interests) does not mean to do not have needs (i.e. minors).

The firm as a real entity and a community of persons

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IT DEPENDS ON:

FIRM AS LEGAL FICTION

The firm is considered as an instrument and, as an instrument, it would lack in any kind of responsibilities even moral ones (Velasquez, 1983).

Responsibility, indeed, could be attributed only to individuals.

For example, the car is not responsible for having ran over a pawn, it is the driver to have the legal (and moral) responsibility for the accident.

The moral responsibility need an intentional action from individual (Ripken, 2009), the firm is not able to have one because it has not an own mind.

FIRM AS A REAL ENTITY

The firm it self, as individuals, can be accused of crimes (Lozano et al., 2015) and it has moral responsibilities too (Ripken, 2009). This aspect is amplified by the conception of the firm as a community of persons (Melé, 2012). To condemn the firm means to condemn the whole community of persons composing it.



The firm as a real entity and a community of persons

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Consider the firm as a real entity and in particular as a community of persons attribute it responsibilities (moral and legal ones). Since, as juridical person, it is not able to express its needs and take decisions, this role is given to its governance bodies (i.e. board of directors)

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Actions tend to be always a collective act (Olson, 1965)

THE IMPORTANCE OF LEADERSHIP IN PURSUING THE PRIMARY INTEREST OF THE FIRM

THE CORPORATE OBJECTIVE (INTEREST OF THE FIRM) CAN BE DEFINED AS A MULTI-ENDS PURPOSE CONSISTENT WITH THE COMMON GOOD (MELÉ 2009)



The good for the firm (its interest) consists in producing useful goods and services in an efficient and sustainable way, creating conditions for each participants to receive back what it is expected (Argandoña 1998)

**THE PRIMARY INTEREST OF THE FIRM IS THAT TO SERVE THE COMMON GOOD.
THE COMMON GOOD CONSTITUTES A COMMON INTEREST FOR ALL STAKEHOLDERS:
THE RISK OF PURSUING ONLY THE PARTICULAR INTEREST OF EACH BUSINESS PARTICIPANT
WOULD IMPLY THE POSSIBILITY TO JEOPARDIZE EVEN THE SATISFACTION OF THE LATTERS**

The complexity of business leads to a MULTI-ENDS PURPOSE



The «compass» serving as guideline to balance all the interests involved is the good for the firm (Coda 2010) and not for a single stakeholder (Friedman 1970) or a single group of stakeholders (Freeman 1984)



The good of the firm is the balanced harmonization of all interests

View of the firm

REAL ENTITY: FIRM AS A COMMUNITY OF PERSONS

Multidimension logic of the common good (Melé 2008)

Role of the firm

Serve the common good



Choosing business purposes that are sustainable for: the firm, its stakeholders and the community as well (Di Carlo 2017)

**MULTI-ENDS
PURPOSE OF
THE FIRM
CONSISTENT
WITH THE
COMMON
GOOD**

- Supply useful goods and services efficiently and fairly
- Generate profit fairly and distribute equitably (profit is instrumental but necessary for the common good)
- Provide jobs and develop talents, skills, knowledge and possibility to flourish as human being
- Acting as a good social actor
- Meeting the current financial needs without never compromise the ability to face future needs
- Meeting environmental and social needs of the present without compromising future generations

THE GUIDELINE FOR A MULTI-ENDS PURPOSE OF THE FIRM

Consistent with the common good



The steps to achieve the multi-ends purpose of the firm:

1. Consider the firm as a real entity separating its interest from that of its stakeholders through a clear and sharable mission
2. Consider people as an end rather than instruments for profit maximization
3. Elaborate mission contents able to orient the firm towards the common good, thus, a multi-dimensional mission considering economics and social objectives
4. **Create a multi-ends leadership style**



LEADER HAS A CRUCIAL ROLE IN FACING BUSINESS COMPLEXITY.

TAKE CARE OF PEOPLE HAPPINESS INVOLVE MORE THAN CONTRACTUAL VARIABLES AND ANYONE MORE THAN A LEADER HAS TO BE IN CHARGE TO BALANCE THE INTERESTS OF INDIVIDUALS, THE FIRM AND THE COMMUNITY AS A WHOLE.

Real Entity: firm as a community of persons (Melé 2008)

Consider the firm as a real entity makes possible to make a brief recall to *Economia Aziendale* (EA) from Italian doctrine that considers the firm as a system in the sense that its parts (e.g. assets such as machinery, equipment) and participants (i.e. persons involved in the production process) are not separated; instead they are coordinated and integrated, they are bounded together in order to achieve the firm's interest (Bertini, 2014, Coda, 2010). The firm is not identified with the owners, the capital, the assets, the people taking part in it or with the contracts or the relationships among its components,

but rather it is an autonomous and real entity composed of all these elements and the relationships among them

How a leader can orient the firm and its followers towards the common good for business and society?

Leader has to be able to develop controlled mental processes in order to assess the problem complexity and consider more variables simultaneously before taking decisions.

Different is the situation when the purpose of the business is mono-dimensional (for ex. profit). He'll only need to benefit personal interests. In this case his mental process are fast, simple, out of control, thus automatic.



THE GUIDELINE FOR ACHIEVING THE MULTI-ENDS PURPOSE OF THE FIRM

A GOOD LEADER AS A GOOD «FAMILYMAN»

A good family man always takes family decisions by considering more than one aspect and variables (like economic and social dimension), this because he considers family and its members like an end in themselves (the firm as a community of persons) and assigns to the family a higher overall purpose that matches that of the whole community (the final purpose of the firm is to serve the common good of society by achieving its own common good – given by multi-ends purposes).

The superior purpose of the family (firm) allows the family man (leader) to solve and balance the competitive interests between family members (the firm as a real entity, its stakeholders and the community), always looking for long-term equilibrium (economic and social).

Leadership has a central role in creating a culture of trust in the organization (Levin 1999), in response to the growing number of corporate scandals, senior managers have needed to redefine the firm's corporate purpose to strengthen their moral leadership (Springett 2004). Different types of corporate purposes affect leadership that affects, in turn, the long-term financial and non-financial performances of corporations (Springett 2004)

THE CENTRAL ROLE OF LEADERSHIP FOR CORPORATE PURPOSE: THE EVOLUTION OF LEADERSHIP STYLE

LEADERSHIP FOR AN INDIVIDUALISTIC PURPOSE

A variety of "egoistic incentives" theories (Axelrod 1984; Alexander 1987) account for the minimal amount of cooperation and base human behaviors on totally self-interested variables. Coherently with this approach leadership has been traditionally understood and evaluated in the light of material results, on the extent to which the stated economic goals were achieved.

LEADERSHIP FOR A MORAL PURPOSE

The majority of moral leadership's approaches have their focus on followers' care and leaders' ethical behaviors like self-awareness, altruism, humility, integrity and a normative and fair approach to management (Dirk van Dierendonck 2011; Karakas and Sarigollu 2013). Thus, they consider the role of a responsible leader as an ethical and moral phenomenon.

The main emerging aspect is linked to the need for business to have a more ethical context with a leadership style able to develop multiple attitudes towards different kinds of stakeholders

WHICH THE RISK IS?

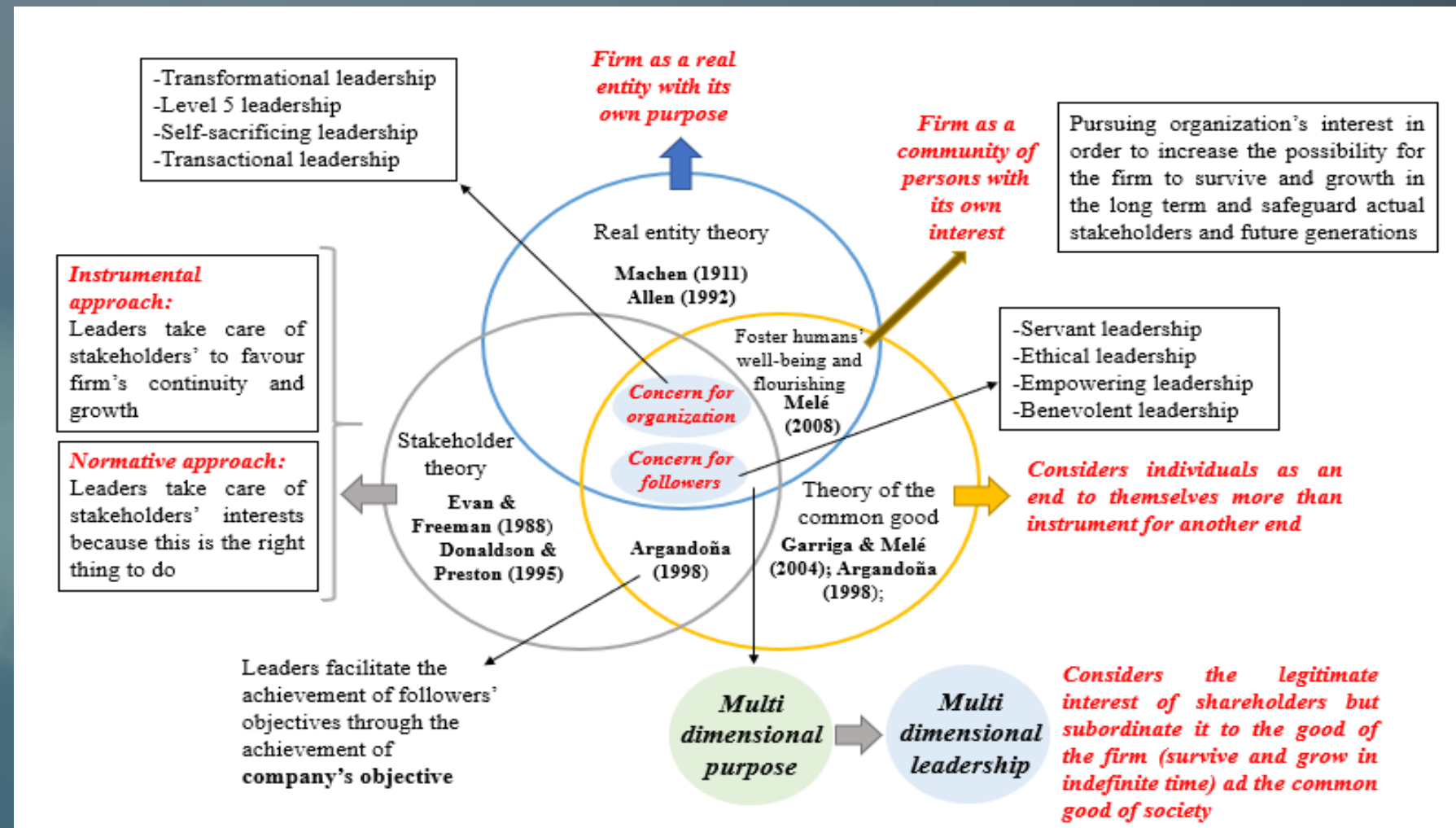
THE RISK IS THE LOSS OF THE *ECONOMIC* CONDITIONS USEFUL FOR THE FIRM TO SURVIVE AND DEVELOP OVER TIME

The main differences among the existing leadership styles lie in their focus on followers, OR on the organization, however the aim is to bring a new multi-ends leadership style linked with the multi-ends mission consistent with the common good, in which this difference does not exist



It is a mix between a leadership oriented to serve people with a focus on them more than on the organization objectives, a leadership oriented to the organization objectives through the understanding of followers' needs and leadership focused only on results

Theoretical foundation of multi-ends leadership: Real entity theory, Stakeholder theory, and theory of the common good



THE CONTRIBUTION OF THE REAL ENTITY THEORY

ADVANTAGES

- 1) People carry out activities in cooperation and results cannot be attributed to anyone in particular, but to the organization as a whole.
- 2) Firms have culture and history, and an accumulative learning, which remains when individuals, who can join and leave the firm, have gone.
- 3) The real entity does not eliminate individuals, on the contrary, it completely depends on them and their relationships.
- 4) Together with the need to satisfy stakeholders' interests, the leader and the whole community need to take care of the organization's interests as well.

LIMIT

All that given, the real entity theory seems to do not specify which the interest (or purpose) of the organization as a "real entity" has to be and which are the right conditions needed to ensure its survival and growth



THUS...

THE CONTRIBUTION OF THE STAKEHOLDER THEORY

ADVANTAGES

The main contribution of stakeholders' theory lies in the need to take care of stakeholders' interests not only because of fairness, as the normative approach suggests, but also because of economic reasons (Plender 1997).

LIMIT

MEL links together the view of the firm as a real entity and the stakeholder theory since the latter does not consider relations among stakeholders more than contractual ones. This theory like the real entity theory does not provide a shareable and common interest that leaders have to use a compass to manage business complexity.



THUS...



THE CONTRIBUTION OF THE COMMON GOOD THEORY

The common good provides the missing elements to the stakeholder theory and the real entity theory

It gives the former a superior objective serving as a compass in managing the trade-off between all stakeholders' interests and to the latter the right conditions needed to ensure firm's survival and quantitative and qualitative growth.

The common good theory gives an "overall effect" for the whole business community since individuals are not self-regarding but able to cooperate with a sense of service, altruism, and reciprocity having extrinsic, intrinsic and transcendent needs to satisfy

These attitudes of cooperation improve people's happiness and well-being (Lyubomirsky et al. 2005; Post 2005), thus, the common good orientation fosters human flourishing

Moreover, the common good theory is strictly connected to virtue ethics (Arjoon et al. 2018). The common good provides the right direction for actors' behaviors and the right conditions to understand virtues, while, it is through virtuousness that the common good is realized.

A specific behavior is not considered as virtuous if it is instrumental to the pursuit of another objective that is not related to the common good. In the same way, link virtuousness to the good for the firm is not instrumental. The survival and growth of the firm is a common good and a virtuous behavior aimed to balance all other dimensions (economic, social, etc.) will serve the common good.

HOW TO MANAGE FOLLOWERS' ORIENTATION: LEADERS' RECOMMENDATIONS (1/3)

1. *Leader has to have clear what the MEPCCG is and the ways to promote it. He/she has to have the right understanding of the common good and the goods that compose it, to work for its generation and spread.*
2. *As a good family man, he/she has to be able to create a community and orient people to the interest of the latter (so, to the mission). Moreover, he/she has to make clear that, differently from a family context, the firm is not only a community of persons but a system composed of goods (material and non-material) and persons and a series of relations among them.*
3. *Leader has to clarify followers the concept that the firm has distinct interest from stakeholders; shareholders are not the owners of the firm but the owners of the shares (Alchian and Demsetz 1972), as a consequence, the firm cannot be managed in their exclusive interest.*
4. *Leader has to make followers able to understand what does pursue the MEPCCG mean. For example, facing an ethical dilemma (makes the interest of A prevailing on the interest of B), he has to underline how the common good is the only compass for decision.*

HOW TO MANAGE FOLLOWERS' ORIENTATION: LEADERS' RECOMMENDATIONS (2/3)

5. *Leader has to transmit to followers the courage to criticize his choices, since leader too can make mistakes.*
6. *Followers have not to identify themselves in the figure on the leader but the firm. This is order to create a business culture that can overpass the time of permanence of leader within the firm.*
7. *In case of delegation of some activities to external parties, the leader must recall also for the latter the need to be aligned with the MEPCCG. In this case, he/she has to consider the possible "misalignment" and takes responsibility for it.*
8. *In case of delegation of some activities to external parties, the leader must recall also for the latter the need to be aligned with the MEPCCG. In this case, he/she has to consider the possible "misalignment" and takes responsibility for it.*
9. *In aligning followers towards MEPCCG leader has also the role to make clear the tangible and intangible costs deriving from followers' misorientation*
10. *Leaders have to make followers understand their relevant role in pursuing corporate objectives and rewards them **(with extrinsic and intrinsic goods)** for their contribution. To do so, **leader has to permeate the necessity to elaborate a clear mission shared by all and oriented to the common good, contrasting the tendency to consider this instrument as useless.***

HOW TO MANAGE FOLLOWERS' ORIENTATION: LEADERS' RECOMMENDATIONS (3/3)

10. *Leaders have to make followers understand their relevant role in pursuing corporate objectives and rewards them (with **extrinsic and intrinsic goods**) for their contribution. To do so, leader has to **permeate the necessity to elaborate a clear MISSION shared by all and oriented to the common good, contrasting the tendency to consider this instrument as useless.***

Example of MEL's behaviours

A leader has to face the short-term choice to increase or not employees' wages

He has to consider more than just one variable: employees' needs (happiness)

- Be aware of the business conditions behind this choice
- Be sure that the choice do not jeopardize the survival and grow of the firm in the medium/long-term
- Be aware of the possibility for employees to grow as human beings (employees can't take from granted that their wage will increase since they need it, regardless of their commitment to work)
- Leader has to provide employees with the possibility to increase their knowledge, creativity, skills of cooperation, friendship, relational and professional ability etc.
- This would satisfy their intrinsic needs and provide a value added to business (generating the possibility for leader to increase employees' wages in the long-term)

Example of MEL's behaviours

A leader has to face the short-term choice to increase or not employees' wages

Leader has not to overcome these limits:

1. The possibility for individuals to grow as human beings
2. The firm's long-term survival and quantitative and qualitative growth

There is not the risk that a MEL, being a virtuous leader, is oriented towards the good of people without any limit. The limit is imposed by company efficiency for its survival and growth.