

Chapter 12

Confrontation and Cooperativeness

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Confrontation and Cooperation

Abstract: Version I

Because the two parties to a business transaction have significantly different priorities, business has been thought of in terms of confrontation. But the cooperative aspect of business association is equally important, and in many institutions, whose significance has not been recognised, predominant. The confrontational aspect, however, cannot be eliminated. Both individuals and firms may need to be subjected to a searching hard look, to see if they measure up to external standards. Nevertheless, though sometimes necessary, it is always costly, and can be counter-productive. The chief emphasis is on cooperation, especially as business becomes more concerned with ideas and less with things; and the more this is realised, the readier businessmen should be to respond to a wider range of obligations, often being able to obtain, by virtues of the resources they have at their disposal, desirable results which would not otherwise be forthcoming, and which, at least in indirect ways, benefit both the firm and its shareholders.

Abstract: Version II

It is often assumed that the only way separate centres of decision-making can cooperate is by each striking the best bargain it can, but because they always share some values, they can, and often do, cooperate readily, sometimes without any money changing hands. It is often an efficient procedure, partly because it saves transaction costs, but also because the atmosphere of cooperativeness engendered, encourages people to chance their arm and try their best, rather than being defensive and making sure that they do not lose out. Our traditional understanding of economics has been fashioned under conditions of scarcity in which resources have to be competed for, but with the advent of information technology we are moving into a world of ideas rather than things, in which cooperativeness needs to be our predominant attitude of mind.

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§12.1 Spectrum

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The two paradigm associations that emerged in Chapter One were paradigms only.¹ We never have all values in common, we never have none. And correspondingly, many of the decisions we reach are neither the result of a centralised decision-procedure nor the outcome of tough bargaining. We often compromise, and instead of insisting on the course of action we believe to be really the best one, agree to a less good one that others are prepared to agree to, reckoning general acceptability more important than following our own view of what actually is best: and likewise we often do not hold out for the best bargain we could obtain, setting greater store by the association's general cooperative purpose being achieved than maximising our own particular pay-off. The stark alternative of either a command economy with a centralised system of decision-taking, or a market economy with a completely decentralised one in which the parties are completely external to each other, is a false alternative. Not only is neither paradigm instantiated as a pure case,² but there is a wide spectrum of cases in between. We can see why. The same considerations that make firms efficient economic units, make other, more limited, forms of give-and-take efficient too.

The case needs to be argued. Thus, although the existence of families cannot be denied, some economists regret it, and think it would be better if each member—or at least, each adult member—were a separate economic unit, trading with the others, setting a monetary value on goods and services supplied and received, and keeping proper accounts. But there are great costs in keeping proper accounts. Although sometimes necessary, either as a safeguard against misappropriation or as a tool of analysis to ensure solvency or enhance profitability, keeping accounts takes up much time and effort that could be better spent elsewhere. It often clogs decision-making, and is likely to involve decision-makers in considerable hassle in agreeing a monetary value for their transactions. Often the overhead costs are high and the running costs are low. The House of Commons and the BBC each have a library service, to enable MPs and producers to find out and verify the facts they need

¹ In ch.1, §3, [Check], p.7 of adam4.

² See above, .ch.1, §6,Check, pp.13-14 of adam4.

for their speeches and programmes. If a charge were made, not only would much money be wasted in keeping track of the money, but there would be a standing temptation to economize on use, which would leave the overheads the same, but the value obtained from them much diminished. Many universities have medical departments which cooperate with hospitals run by the National Health Service. If a professor treats a patient and then writes up the case to publish in a medical journal, he is promoting the aims of both the National Health Service and the university; it does not make sense to make some division of the costs. Sometimes he will use university paper and a university xerox machine to do clinical work, and sometimes a secretary funded by the National Health Service will type references for an academic appointment. And often the give-and-take will go much further. A doctor entirely funded by the National Health Service will give seminars, and university lab assistants will analyse patients' specimens. Or again, to take another medical example, if I am a surgeon operating on a patient and I discover a carcinoma whose excision necessitates a lengthy further procedure, I take it for granted that the anaesthetist and nurses are as anxious to cure the patient as I am, and will not grudge the extra time and effort required for the longer operation. If the parson asks you to read a lesson in church, the exercise of working out how much more it will benefit him than you, so as to set a suitable price on it, is fatuous. Within the world of shared values, setting a price on cooperation is not only time-consuming and difficult, but altogether without sense.

It is often assumed that the only way of achieving un-paid-for cooperation is to establish an umbrella authority which can tell the different bodies to cooperate without sending in a bill. This is the converse view to that which would have everyone a separate economic unit. But unitary command systems are expensive to maintain, and often do more damage by issuing ill-informed directives than good by coordinating effort and facilitating cooperation. Many conglomerate companies have been formed. in which a "parent company" takes over other companies, and runs them all, providing centralised direction and some common service. Most have been failures, with the parent company not enhancing the performance of the companies it owns sufficiently to off-set its own costs. Often the interventions of the parent company have actually detracted from the performance of the companies taken over. Only under rather special conditions does the centralised ownership and

control of different firms make economic sense.³ Decision-taking needs information, and information is often more available locally than at the centre. Separate centres of decision-taking are likely, therefore to take better decisions, arranging between themselves those forms of cooperation which, in the light of the aims they have in common, make good sense.

But beyond a certain point the divergence of interests becomes too significant to be overlooked, and some monetary payment will be thought appropriate. But even then it is not toughly bargained over—some standard fee is agreed for giving a seminar, some standard charge for analysing a specimen. Since the two parties are not external to each other, and the fruits of cooperation are beneficial to both, no real bargaining can take place; the basis for determining what the standard price should be is, rather, that of ensuring that neither party is out of pocket as a result of the cooperation.⁴

There are many cases of autonomous or quasi-autonomous bodies cooperating within the context of shared aims: the colleges of Oxford and Cambridge; universities generally; government departments;⁵ local government authorities; trade unions; churches. Many businesses are in the same case, remaining entirely independent of one another, yet frequently cooperating, sometimes on a give-and-take basis, sometimes with money changing hands, but without bargaining.

This makes sense. The fundamental basis of business is cooperation, not competition. If there were no cooperators' surplus, no Non-ZeroSum Games, there would be no business at all. It is only because there are fruits of cooperation, that there can be competition over them; the Zero-Sum Game is dependent on the Non-ZeroSum game. Cooperativeness is the dominant aspect, the competitive, adversarial the subordinate aspect, of business activity.⁶

³ See Michael Goold, Andrew Campbell, and Marcus Alexander, *Corporate-Level Strategy*, Wiley, New York, 1994.

⁴ Compare ch.9, §?4, Check (Professions/fees).(prof2 p.3)(there may be a better reference to not being out of pocket)

⁵ Although government departments are all nominally Departments of State under the ultimate control of the Cabinet, they are in practice quite largely independent organizations, yet freely cooperating to serve the public interest.

⁶ This is not to say that businesses should not compete. Adam Smith's fears (see above, ch.*§*, were justified, and many countries have had to enact anti-trust legislation to prevent cartels.

No business can be entirely adversarial,⁷ and the underlying logic of business activity exercises a pervasive pressure to shift along the spectrum to a more cooperative and less adversarial stance.

§12.2 Accountability

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Once we recognise the dominant role of cooperation in all business transactions, we shall reassess the importance of confrontational attitudes. Sometimes the businessman needs to take a long hard look at his operations, and see whether they make economic sense. But he will not be doing this all the time, any more than he would be seeing his solicitor all the time. The law sets the bounds within which we operate, and sometimes we need to take stock of our legal position, and make sure that under the most adverse conditions we shall still be all right. Similarly the businessman needs to look to his accounts, and keep a careful eye on his costs, and make sure they are covered by his takings. But time taken on accounts is time not spent on other activities, and it is other activities that bring in the takings; too much accountability not only wastes time, but can be counter-productive.

The underlying reason why accountability can be counter-productive is that it is implicitly adversarial. In being asked to give an account of my activities I am being challenged to justify them. Maybe I can: but I am being put on the defensive, and defensiveness is not the attitude that engenders positive initiatives or flights of creativity. Instead of being myself trusted to get on with the job and do the best I can, my actions are being weighed, and may be found wanting. Maybe I shall not get promoted; maybe, even, I shall get the sack. I must make my dispositions accordingly. Instead of doing what is best for the firm, I must see to it that my actions, when scrutinised, will appear in such a light as to work out best for me. I shall economize with the truth where it might rebound to my discredit, and shall embroider a little where it might embellish my image. And in my future actions, I shall always be looking over my shoulder to see how they will appear to the efficiency auditors. As soon as I can figure out what yard-stick they are going to use, I shall put my best foot forward along that yard. And that well may be not the best way for the firm to go. In the 1980s, when accountability and performance-related pay were

⁷ See above ch.1, §6?, p.13 of adam4.

in fashion, many banks and financial companies paid executives according to the loans they had made.⁸ Loans were accordingly made: and provision is still being made for the bad debts. Similarly in the civil service the introduction of performance-related pay has not only wasted a lot of time, but undermined the public service *ethos*. Civil servants had been imbued with a sense of public service which led them to take decisions in the public interest, without regard to their own.⁹ Introducing performance-related pay signalled that it would be wise to take not the steps thought to be most in the public interest, but those that were likely to be approved by the assessors. The adversarial edge of accountability cut against complete identification with the values of the civil service.

Business is in part adversarial: a businessman may have to keep an employee up to the mark, reprimand him, or even sack him.¹⁰ But the adversarial element is a subordinate one, taking its place only within a wider, cooperative, framework. Although discipline is essential in the armed forces, the wise commanding officer inspires his men with a sense of shared purpose, so that each identifies with the regiment or the ship, and feels on his mettle to do his best. So too in a firm. Employees are accountable for what they do and fail to do, and sometimes it is necessary to call them to account, and if the account is unsatisfactory, to haul them over the coals. But it should not be necessary often, and should not be done unless necessary; for the cost is considerable, not only in the obvious way of the time and money spent on the exercise, but, more insidiously, in the loss of cooperativeness and the falsification of facts and figures engendered. In many institutions efficiency audits have been highly destructive of efficiency.

— It is often difficult to explain oneself. Reasons are hard to articulate. In practical affairs we have to size up a situation quickly, and often have a clear sense of what to do, but only a hazy one of the exact balance of reasoning that justified it. Even where we have deliberated long, we may end up much clearer about which way to go than the precise reasons for doing so. Many men are not nimble in their use of words, and cannot express themselves well, if called to account.

⁸ See above, ch.5 (Shares), §5?, p.5 of share5.

⁹ See above, ch.1, §4 (interests)

¹⁰ [I had a note: this para wobbles. Does it still?]

We therefore limit the extent to which people are obliged to answer—respond to—the question ‘Why did you do it?’ or ‘Why did you not do something to prevent it?’. Although anyone can ask me, often I shall say ‘I am not responsible to you; it is none of your business’, or ‘I am not responsible for that; it is none of my business’. — Even if I am not responsible *to* anyone, I am still responsible. I am not obliged to answer another’s questioning, but still must answer my own.

§12.3 The Wider View

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The predominance of cooperativeness in the underlying rationale of business justifies the wider view of their responsibilities taken by some big firms. Some firms sponsor concerts, some patronise the arts, some support training schemes for disadvantaged youths.

Such use of company funds has been criticized both from the right¹¹ and, more surprisingly, from the left. Sorell and Hendry endorse the view they find implied in the remarks of Mary Rimmer, a local councillor, and Gordon Brown, a Labour Member of Parliament, that it is morally wrong, because

By taking on obligations that are properly those of government, it could be argued, businesses discourage governments from discharging its obligations itself.¹²

It is a surprising view. No government discharges all its obligations. There are too many calls on its limited resources. Sometimes, perhaps, a government could be criticized for supinely relying on businesses to do what it ought to be exerting itself to provide, but to criticize businesses for doing what ought to be done but is not being done by the existing government seems perverse.

Elaine Sternberg’s criticism is more trenchant. It stems from her definition of the purpose of business as being to maximise owner value over the long term. But that definition is purely stipulative; nor can we rigidly fetter the discretion of a board of directors by

¹¹ Elaine Sternberg, *Just Business*, London, 1994, ch.2, p.41; quoted in ch.8 (shares), §5, p.13.

¹² Tom Sorell and John Hendry, *Business Ethics*, Butterworth Heinmann, Oxford, 1994, p.161.

a requirement that they must only maximise and never seek to accomplish any other purpose.¹³ But still the question arises whether the activities actually supported are legitimate ones for a business firm to support. The answer might well be No, if all firms engaged in business were seen as having fairly few values in common with the rest of society. But they do not have to be all located at the end of the spectrum—none of them can be at the absolute end—and it is natural for some, especially the larger ones, to share quite a number of aims with the rest of society. “What is good for the United States is good for General Motors” is not just pious rhetoric, but an obvious platitude. And devoting some corporate revenue to promoting common aims makes corporate sense. If ICI sponsors concerts, Shell patronises artists, Gallaher subsidises cricket, their shareholders benefit.¹⁴ They live in a society in which concerts happen, artists paint, cricket matches occur. If no such expenditures were made, and dividends increased by less than 1%,¹⁵ few shareholders would be able to achieve a comparable effect with their increased dividends. The concerts and cricket matches would not take place, my buying just one picture would not keep the artist in business. I should be able to buy a few extra packets of cigarettes, but other good things I might reasonably desire would be simply not available.

Against this, ardent individualists maintain that it is none of the directors’ business to decide what the shareholders want: only the individual shareholder can decide how his money should be spent, and the directors should channel as much money as possible into the shareholders’ pockets. It is a tenable view, but not one that follows from the nature of a public limited company. A company might adopt that policy, but it is not an obligatory one. Shareholders can direct their directors not to make any, or some particular, donation, and insist on all profits being distributed as dividends. But they do not have to do this, and if they decide to—or more realistically, acquiesce in the directors deciding to—devote

¹³ See above, ch.4, §5? (Trusteeship), and ch.5, §§5-7? (share5 pp.7-11)

¹⁴ [I had Dunlop, but they have gone bust: I need a better example; ask Richard]

¹⁵ Pilkington, an exceptionally generous and community-minded firm gave just over 0.4% of its profits in charitable donations in 1984 (Tom Sorell and John Hendry, *Business Ethics*, Butterworth Heinmann, Oxford, 1994, p.160).

some corporate revenue to achieving collectively what they could not individually bring about, they are being entirely rational. It is much the same as with taxes. I cannot as an individual secure the services of a policeman, fireman, ambulance man, and I may not in fact, if I am lucky, ever need their services; but I am better off if they are there, and am foolish to begrudge my contribution to their being available in case of need. Similarly I may not go to concerts or cricket matches, or care about pictures, but overall am likely to benefit from some of the charitable donations made by some of the companies in which I have shares, and even if I obtain no personal benefit, these are aims valued by many, including many of my fellow shareholders, which it would be reasonable for me to endorse.

Big may not be beautiful, but it has reason to be bountiful. In time past rich individuals would be municipally munificent. Often it was pure benevolence, but it was not always only that. They stood to gain themselves by having a better city, a better country. Whereas the contributions of the poor were individually too insignificant to establish a municipal art gallery, and any individual contributor would have a Prisoners' Dilemma incentive to leave it to others to pay, a single rich man, or a few of them clubbed together, could actually make an effective difference and bring about a better state of affairs. And a better state of affairs municipally was a better state of affairs for each of them individually. The city fathers, by very reason of their wealth, are identified with the city, and feel its benefits as their own. The same logic applies to big corporations.¹⁶ By reason of their size they have much in common with society generally; its aims are largely their aims, and its prosperity part of their own. So that although the typical public limited company has as its prime purpose the making of money to be distributed among its shareholders, it can quite properly spend a small portion of its profits on aims it has in common with much of the rest of society.

We can view these expenditures as a form of cooperation. In the typical case other people are contributing time, effort and initiative. But in our moneyed economy almost every activity involves some expense, and many people are in a position where it is difficult

¹⁶ The logic is spelled out in much more detail in Albert O.Hirschman, *Exit, Voice, and Loyalty*, Harvard University Press, 1970,.RefReq: check with VRJ (PPE Seminar book some years ago)

for them to foot the bill—the local choir will give up much time practising and rehearsing, but cannot afford the hire of the Town Hall. A firm can provide the money, which will enable the choir to give its time to the benefit of all who care to listen. These cooperative voluntary ventures seem much more deserving of support than purely commercial ones. They fit the role of the businessman as a cooperator and enabler, operating in a context of give-and-take, where he is putting up some money, enabling the efforts of others to result in an outcome that realises aims that the firm has in common with many others.

§12.4 The Non-Privative World

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Our economic concepts have been formed under conditions of scarcity in which goods were typically material objects, which could be given to others only at the cost of thereby forgoing them. I can share the cake with you, but what you eat I cannot have. Money has been fashioned to be similarly privative. But many of the things we want are not like that. I can give you information and still have it myself. Perhaps this is why telling strangers the way has been the practice of almost all societies.¹⁷ Now, with the development of information technology, far more good things are non-privative. Information, ideas, musical recording, television plays, software, all are essentially non-privative. Some of them we copyright, in order to fit them into our existing economic framework, but cyberspace is a world of sharing, not a world of trading, in which give-and-take rather than bargaining is the rule. It is difficult to foresee how this will affect business, but we may conjecture that cooperation will become more dominant, and adversarial bargaining over the division of the cooperators' surplus increasingly otiose. There will, of course, still be those who want to take without being willing ever to give; it will still be necessary, on occasion, to refuse to cooperate; but the rational strategy will be to start by being cooperative, and only refuse those who have been persistent non-givers.

¹⁷ See ch.1, §1.(Adam4 p.1)