

## **A Copernican Revolution for tomorrow's firms**

**Maurizio Zollo**

**Bocconi University and M.I.T.**

In this panel, we are asked to tackle perhaps the fundamental question related to the role of “work” in a socio-economic system. It is not about new organizational forms or innovative HR practices. It is about the fundamental question on the purpose of the firm, the quest for the model(s) of the business enterprise that can simultaneously and sustainably satisfy the interests and needs of all the actors involved in the creation and development of firms. How should the business firm be governed so that all those who contribute to its success, whether they are investors, employees, clients, suppliers or communities that provide the license to operate and absorb the receive a satisfactory return on their investment?

The standard solution to this problem, dating back to the 19th century, was “give primacy to the providers of financial capital, who should be the sole residual claimants to profits, and fix the returns to all other forms of capital”. That was a sensible solution at a time when financial capital was the real bottleneck to create and develop firms capable to exploit economies of scale. Today, due to the efficiency of financial markets and the role of innovation and rapid adaptation as the key drivers of competitive advantage, that solution does not work anymore. The real bottlenecks to firm growth and success are other forms of capital: human capital (skills and capabilities) and social capital (the quality of relationships). Both forms of capital are “owned” by employees and the firm’s strategic counterparts, like suppliers, customers and the communities in which the firm operates.

Therefore, the rational response by entrepreneurs and corporate leaders in the 21st century to the competitiveness challenge is to change the model of the firm to give voice and a clear governance role to the owners of the key factors for firms’ survival and success. That is a Copernican revolution, not just an adaptive adjustment. It means to innovate and experiment with new ways to handle the very core functions and processes of the firm. All of them need to be redesigned at its very essence to integrate the interests of the providers of all these forms of capital. The definition of firm performance changes, since it adds to the standard accounting and financial metrics, new ways to assess the environmental and the social impacts of firms’ activities. Investment approval and management control processes (with connected IT systems), HRM processes and incentive systems, supply chain management, R&D priorities, customer engagement, eco-system level collaborations, even M&As and joint-ventures, and the notion itself of corporate growth need to be fundamentally rethought in the light of the interests and needs of the new owners of the business firm’s strategic resources.

The good news is that a small bunch of pioneering firms are already experimenting with these new governance models, and with integrative processes and systems across all the key functions of business activity. The real challenge is how to stimulate, facilitate and support this type of innovation in the fundamental models of the enterprise, with policy interventions that go beyond standard incentives and embrace the experimental nature of the challenge. What this challenge requires is the establishment of “labs” to experiment on all these new ways to design and manage business activities. These labs would involve firms and their stakeholders in pilot project experimenting with new forms of governance and business activity systems. They could be

supported by expert neutral parties (like academia and consultants) to facilitate the innovation process, and by government institutions to provide the necessary infrastructure and, in part, resources<sup>1</sup>.

This is what the firm of the future will look like, and how we envision the evolutionary process from the current forms to those models of sustainable business activity to occur. At its core lies the capacity to elicit and develop cooperation across the providers of the various types of capital by giving voice and yielding governance rights to them across all forms of business activity. This will allow the early movers in all industries to generate a competitive advantage that will be sustainable for the economic, social and environmental wellbeing of the enterprise, inclusive of all its core stakeholders. Perhaps even more importantly, it will put in motion a virtuous cycle of innovation and imitation on the (micro)foundational basis of the economic activity, which would then allow entire economies and regions to evolve towards sustainable development patterns for the joint benefit of the private, the public and the plural (civil) sectors of society.

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<sup>1</sup> One example of these experimental ventures is provided by collaborative business-academia-institutions programs like [www.goldenforsustainability.com](http://www.goldenforsustainability.com)