

## **Keynote Address**

# **Odysseus Meets Hydra: On the Ubiquity and Ambiguity of Borders for Business**

*Josef Mugler\**

### **Introduction**

Perhaps your spontaneous reactions are like these: The speaker is wrong: Odysseus never met Hydra! I wanted to attend a serious scientific conference on today's economics and management theory, and not on antique myths! What has this title to do with integration or disintegration in our world?

My short reaction to the first comment is: Are you sure (that Odysseus never met Hydra)? Perhaps Homer did not know or tell us everything.

Concerning your second possible comment, I shall present some arguments to suggest that a meeting of Odysseus and Hydra can be taken as a metaphor for the confrontation of entrepreneurs with borders.

And concerning your third possible comment I want to stress that borders are the core problem of integration and disintegration - the key terms of this year's Enterprise Odyssey Conference.

### **Odysseus and Hydra as Metaphors for Entrepreneurs and Borders**

Let me start with some remarks on the key actors of my play:

Everybody knows Odysseus, the most resourceful and crafty and cunning hero of the Greek army in the Trojan War. He encouraged the Greeks to construct the wooden horse as a tricky gift to the ir enemies so that he, together with a group of soldiers,

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could invade the town undiscovered and start the final battle from inside. After the victory of the Greek army, Odysseus had some problems to find his way home – or if we put it in the words of today's odysseys of enterprises: He had some trouble achieving his strategic goal. However, after a lot of adventures and – if we recall his stay with Calypso on the island of Ogygia, which probably was the Croatian island of Mljet – also after some pleasant years of amusement, he finally achieved his strategic goal and returned home to his wife and family and kingdom on the island of Ithaca.

Odysseus' antagonist in my play is a terrible monster, a serpent or dragon called Hydra. It lived in a cave in the country of Argolis on the Peloponnesus. When it came out from its cave it used to damage cattle and cornfields so that the people of that region had to suffer from economic drawbacks. Of course, the heroes from the neighbourhood tried to fight this monster in order to secure the supply of food to their societies. However, the main problem seemed to be the nine heads of the monster. From every neck from which one head had been cut off two new heads grew back and made it even more dangerous because of the multiplication of hungry mouths. Hydra has never been defeated by mortal human beings. It needed one of the sons of godfather Zeus himself: Heracles who rescued the people of Argolis from the monster and achieved immortality for himself because of this and eleven more extraordinary deeds.

To be honest, I do not really want to correct or improve Homer by claiming that Odysseus met the monster Hydra during his odyssey. But I ask you to consider with me 'what if.' How could Odysseus have reacted if he ever met Hydra. When we start thinking in this way we should keep in mind that Odysseus is the metaphor for the resourceful and crafty and cunning entrepreneur, and Hydra is the metaphor for borders. Why? Because borders are one of the main reasons for economic turbulence or even drawbacks, and because of the fact that after cutting off one border another one or two or more sprout from the bloody rump, and finally because it would probably require another divine hero like Heracles to extinguish borders completely.

It seems to me that we mortal human beings are fighting hopeless battles against this modern Hydra. And obviously there is no divine hero like Heracles to defeat it. But what about the entrepreneurs, what about the heroes of the Odysseus type? How do or can they approach the Hydra of today's borders?

A first provisional answer to this question seems quite clear to me: The entrepreneurs of today are not ready to accept borders as they are, but at the same time they are not ready to fight against borders in never-ending and hopeless battles, even more: they are not interested in extinguishing borders if they are beneficial to them. Certain borders, e.g. between the firm and its environment, even seem to be necessary for prosperity. And sometimes stable borders in the environment of firms may be better than chaotic sprouts of new borders where an old one had been cut off. Entrepreneurs are not born border fighters, but are – if we take it as a metaphor from

Odysseus' characteristics - resourceful and crafty and cunning pathfinders on difficult landscapes. The core thesis of market economics is that by acting under market conditions entrepreneurs are driven continuously to discover new ways and cross borders. By doing so, they contribute to a better living, not only for themselves, but for the society as a whole.

### **Borders Beyond Economics: On the Ubiquity and Ambiguity of Borders in Society**

Do you know a country without borders? – Perhaps only paradise is such a country: because all goods are free there for everybody – except one: knowledge. After eating from the Tree of Knowledge Adam and Eve were expelled from the borderless country of surplus, and the first human beings had to learn that there is at least one border: the border between inside and outside paradise.

Those who live outside paradise experience lots of borders and several types and characteristics of borders. Borders are multidimensional constructs of different elements which can interfere, enforce or compensate each other, and make borders more or less impenetrable. E.g., linguistic, cultural, religious and topographic elements can enforce or reduce the effectiveness of a political or administrative border.

The break-down of a historical borderline by a state treaty may be a spectacular event, however, elements of these borderlines can remain imprinted in people's brains and thus relieve the effects of governmental acts. Examples may be taken from the EU integration.

Or, the other way round: The establishment of new political borders may cause further borders within the new political territories, but at the same time former linkages may survive. Examples may be taken from the history of the old Austrian-Hungarian Empire or, more recently, from the history of Yugoslavia.

The negative connotation of the term 'border' seems to originate primarily from uncertainty.

There is a paradox: Although we have a tremendous capacity of media today, we know less and less compared to what we could know and need to know. Sometimes I have the feeling that one apple for Adam and Eve was not enough: Our knowledge seems so limited compared with what we would need to know to develop a more paradise-like life in our world. Or will these apples we are grasping at today, e.g. by crossing borders in the field of microbiotechnology, expel us even from the anteroom of paradise we are living in while struggling for entrance into the true paradise?

Biotechnology is an example for the fact that not only political borders are crucial for society today, but also scientific and technical borders. And it demonstrates that

we often do not know the world beyond the borders which we want to cross or we want to protect us from something unknown.

But there is still some more to be taken into account besides natural, technical and political aspects of borders: Borders in our minds. These borders are imprinted partly by micro-social communication, e.g. within families, within groups of friends and neighbours, partly by the mass media, by radio and TV, by print media, by movies, by electronic networks.

On the other hand, media, according to the original meaning of the term, play an important role in overcoming or breaking down borders. The example of the Internet seems to be a modern success story of breaking down borders. On the other hand, again, we must ask whether worldwide exchange of unverified information is creating new borders because new stereotypes can easily be formed by one-sided or fragmented information.

Borders in our minds are ambiguous too because, on the one hand, they can reduce the complexity of the world by introducing structures for better orientation. At the same time they can increase the complexity of the world around us as they themselves can be complex constructs calling for advanced knowledge to handle them.

Sometimes we believe that beyond a certain border there is not uncertainty, but pure evil. However, we never can be sure whether we were only told about this evil, perhaps because somebody wants to prevent us from crossing a certain border. Recall the warning from the Bible: You are not allowed to eat the apples from the Tree of Knowledge!

This remained the fundamental dogma in most European societies before the age of enlightenment. The age of enlightenment taught people that they have a right to ask any question and to hear any answer possible. The age of enlightenment was based on the hope that human beings will, in the end, be able to separate the wrong answers from the right ones in a borderless space for ideas and thoughts.

This new position became the fundamental dogma of Europe or the so-called Western World which today is more a cultural term than a geographic one. From this fundamentalism, some people derive the right to criticise everything, even more than that: the right to ridicule everything, even the most sacred values of other people. The followers of this fundamentalism do not understand or accept other fundamentalisms of other people. What a tremendous border between them! What a superhuman effort to overcome such borders between fundamentalists! Perhaps only a godson like Heracles would be strong enough to extinguish them.

The ambiguous connotation of borders is based on the limitations not only for free movement of thoughts, but also for free movement of human beings and products.

If we take into account the changing role of immigration in the European context we must admit that borders are connoted by some people negatively and by some other people positively. Immigrants try to enter a certain region and inhabitants of

that region try to keep them out – by enforcing borders. The same holds true for products that are produced in countries with low wage and low labour condition levels. This leads us to the next chapter.

### **Borders in Economics: On the Ubiquity and Ambiguity of Borders in the Business World**

Entrepreneurs are confronted with borders in wide areas of their activities. Let me discuss the borders that challenge the behaviour of entrepreneurs by using the following structure:

1. Borders inside the personality of the entrepreneur
2. Borders between entrepreneurs and their micro-social environment
3. Borders within a firm
4. Borders between entrepreneurs and their micro-economic environment
5. Borders within the macro-environment of a firm

I prefer to visualize these sectors with overlapping circles and ellipses. The entrepreneur in the centre together with the firm and the micro-social and micro-economic environment forms the shape of a propeller. This is the propeller which brings turbulence into the world, into the macro-economic environment. On the other hand, this propeller must be strong enough to drive the entrepreneurial vehicle through the turbulence coming from this macroenvironment.

There are borders within these elements of the system as well as between them. It is absolutely impossible to describe all possible borders and their characteristics within my time budget, and I shall limit my comments on some important aspects.

Let me start with the borders within the personality of the entrepreneur.

#### *Borders Inside the Personality of the Entrepreneur*

As I mentioned before, borders in minds can help to structure and to systematize the way of thinking. Constructing clear structures in one's mind may help for orientation. On the other hand, less clear structures, more chaotic mind maps, may be important for the creation of innovative ideas to cross borders from the world as it is to a fictitious, utopian world.

Innovative ideas may create new products, new markets and new resources. The fit between integration and disintegration of innovative and well-structured thinking was decisive in many success stories of entrepreneurs. To manage these borders is a

task for education and training, and for continued education during the life cycle of the business and of the entrepreneur.

I want to emphasize these borders because they play an important role in the management of a firm. However, this may not meet traditional expectations when we think about borders for business. By tradition, this has been the field for social sciences and has not been in the focus of some economic schools of thought.

### *Borders between Entrepreneurs and their Micro-Social Environment*

Family and friends (the so called FF-connections) are the main actors in the entrepreneur's micro-social environment. And there are borders to manage in any phase of the business life cycle.

In the start-up phase family members and friends often play an important role for overcoming the challenges and stress of these early days of a business. Borderlines between privacy and business often seem to be absent. A lack of support from this side would not be beneficial for a business start-up.

Family members and friends may remain an important resource for the firm over a long time. In family firms we can find a high level of integration between the family and the firm.

However, the time may come when clear borders between the family and the business are necessary for a more professional management of the firm. Many firms suffer from a lack of such clear borders, e.g. when there is an overlapping of family culture and the firm's organization, or if a certain distribution of power within the family is disturbing the management system of the firm, or if there is no clear border between the generations who are responsible for the strategic development of the firm.

### *Borders within a Firm*

The entrepreneur or manager of a firm must be very sensitive toward possible borders within the firm because they can produce either synergetic or impeding effects. Formal borders between sections or departments can increase the benefits of the division of labour within the firm. But formal borders can also disturb relationships and create or break down invisible borders which may even be more effective than the formal borders between departments.

In large firms we can find borders that run parallel with cultural or political borders. Business units of one global concern may need different management approaches according to the locations of the subunits. Global knowledge

management has become a key term today for making knowledge accessible for subunits anywhere in the world. The mismanagement of borders between units has apparently been responsible for many failures of mergers and acquisitions.

But not only large firms must be sensitive toward internal borders. In smaller firms with less formal structures or less professionalized management, we can often observe quite different relationships between employer and employees: In some cases we can find a culture similar to a harmonious family, whereas in other cases the conditions of labour may be less favourable, and tough borders may be effective between employers and employees.

### *Borders between Entrepreneurs and their Micro-Economic Environment*

The next type of border in our system of concentric circles and ellipses around the entrepreneur are the borders to the micro-economic environment. These are the usually wellknown borders toward customers, suppliers, competitors, and all the business partners, shareholders and stakeholders.

These borders seem to be very ambiguous too. Some examples may underline this thesis: Producers try to protect their sector of production against imports and to receive subsidies for their exports. Firms may want to extend their market borders whereas the same firms may at the same time want to defend their home markets against competitors. Firms may be interested in access to new or cheaper resources, e.g. labour or energy, but the same firms may prefer that their competitors be excluded from this access.

Most markets are of the oligopoly type which means that there are some, but not many competitors, and, that individual strategies toward competitors matter. Business strategies can even be interpreted as the design of borders between the firm and its business partners: It has to be decided how customers shall be integrated or disintegrated from one's own organization. Think about firms which invite their customers to design their products by themselves! We have clear evidence that customers are ready to pay more for self-designed products, e.g. if fashion plays a role, or if close adaptations to one's very specific needs are necessary.

On the other hand, a certain type of customer is inclined to save money by providing some self-production or self-service, e.g. in the fitting business. Whereas some firms report on very positive experiences with the integration of customers in the processes of product development and production, others suffer from bad experiences because of violations of property rights when customers take blue-prints or intellectual property for free.

Let me also discuss the management of borders toward competitors. There may be types of competitors who are seen as enemies rather than as potential partners.

However, we have strong evidence that co-operation is a rewarding strategy, especially for smaller firms. And co-operation means a certain management of borders between the co-operating firms. It requires cautious decisions on the balance between trust and controlling. Co-operation is the core of business today, not the anonymous market. This is fiction, the fiction of clear borders between independent actors in the market place, a fiction which is useful to train and to sharpen our way of thinking, however, it is not the real world. The real world is not characterized by clear-cut borders, but by different intensities of integration and disintegration between the acting economic units.

#### *Borders within the Macro-Environment of a Firm*

This is the type of border which we usually have in mind when we think about borders for people and business: the borders between states, associations of states, continents, cultures, between home and export or import markets etc. There is a great variety of characteristics for such borders with quite ambiguous consequences for business depending on the state of development of the economy.

This variety results from differences between cultures, religions, political systems, and administrative regulations on borders. Administrative borders can be divided into tariff and non-tariff barriers which can operate at the borderline or behind the borderline, e.g. by local standards or by discrimination in public procurement (which counts for 12% of the GDP within the EU).

Administrative borders for business can be established or abolished for certain goods, e.g. agricultural produce which seems to be a most sensitive sector worldwide as recent negotiations of the so called Doha Round on the WTO- level are underlining.

Another example is the limitation of imports of shoes and textiles from Far East by the EU which was heavily and adversely discussed by lobby groups of import traders on the one side and producers and unions on the other side. It has to do with dumping prices and fair labour conditions. Concerning this problem of decent work and core labour standards the EU must find a way between hidden protectionism and the demand to implement the core ILO conventions on basic labour rights in the countries of origin for imported products. The interests seem to be very controversial also between the EU-members: Some member states may see those new borders as new heads of Hydra because they rather would have preferred to buy the cheaper products from Far East than to pay higher prices for EU-products.

For products, one would assume that administrative borders have already disappeared within the EU as a consequence of the Single Market principle. However, some days ago the Commission announced a new Directive by the end of



this year to abolish still existing trade barriers for products. This has to do with the burden of proof if somebody feels that trade is hindered by administrative measures, e.g. that a product needs to meet national regulations.

So far this burden of proof was on the side of the enterprises and especially for smaller firms cost and time consuming. The new EU- initiative shall shift this burden of proof towards the national administrations. Isn't it a good example for Hydra's heads sprouting still within the EU?

Another very sensitive area is the services sector. According to UNICE figures, the services sector accounts for 75% of jobs and 66% of GDP in the EU which means that visible and hidden borders can be considerable barriers for the EU economy. The sensitivity of borders for services is shown by the long-term and most disputed negotiations within the EU on the so called Service Directive which was designed to break down barriers by introducing the country of origin principle for cross-border services. Finally, the original concept was watered down as the European Parliament substituted the 'principle of origin' by the 'freedom to provide services'.

According to this compromise, member states are asked to ensure free access to and free exercise of a service activity within their territories, which means that the member states' 'requirements with regard to the provision of a service activity, where they are justified for reasons of public policy, public security, social policy, consumer protection, environmental protection and public health' still will apply. However, all such requirements must be 'nondiscriminatory, necessary and proportional'. Some experts argue that this breakdown of borders for services is constructed in a way so that member states easily can invent new administrative difficulties for service providers from abroad. Will the Services Directive produce new heads of Hydra? We shall see.

In addition to the products and services there are specific approaches to administrative borders toward resources such as capital and labour. The sensitivity of borders for these factors is demonstrated by long-term regulations to prevent labour migration from the old to the new member states of the EU, and by the discussion on a specific tax on capital flows.

### **On the Behaviour of Entrepreneurs When Confronted With Borders, or: Odysseus' Fight with Hydra**

Borders for business are everywhere and can have many different characteristics. Business itself is one reason for the phenomenon that old borders are extinguished and new borders are created continuously. The meaning of borders for business is ambiguous: Some borders seem to be even necessary: e.g. borders in minds can provide clear structures, but on the other hand can impede new ideas. Borders to the

micro-social and micro-economic environment need to be designed constantly either for more integration or for more disintegration. Borders in the macro-environment are continuously changing and need careful observation and reaction by entrepreneurs and firm managers.

The behaviour towards the border phenomenon can be more defensive or more progressive. The active management of borders within a firm and between a firm and its micro-economic environment has always been a core element of the traditional management theories, e.g. organization theory or strategic marketing theory.

The management of borders within the personality of the entrepreneur and between the entrepreneur and his/her micro-social environment has been developed in the more recent approaches of the theories of entrepreneurship and family business development.

Traditional approaches in economics may have elaborated advantages for large firms in managing borders because larger firms are better able to influence borders and to use economies of scale for dissolving borders, e.g. by large scale media advertising or logistic services. Maybe so called global players even are able to influence trade rules and other characteristics of administrative borders in world trade to their benefits.

On the other hand, the larger a firm the more borders may be effective and challenging inside. Or to put it in terms of the transaction cost theory: Outside transaction costs usually decrease whereas inside coordination costs rise with the size of organisations.

For smaller firms we find a paradox situation: On the one hand, high transaction costs impede small firms so that they should avoid operating in a complex border situation and try to keep the cost for overcoming borders in their environment small, e.g. by focusing on well-known market niches, on local markets, or on particular customers' needs. It is more difficult for smaller firms to overcome or influence borders in their environments, e.g. to overseas markets. This disadvantage can be compensated for at least partly by co-operation, but also worsened by weak associations and lobby groups or weak representation within governments.

On the other hand, we should not forget that services to reduce high transaction costs for firms have become attractive business opportunities for small, innovative firms. Examples may be taken again from the advertising, logistics, information and communication technology, in this case however, only if economies of scale do not play a role. This phenomenon underscores once more that both disappearing and reappearing borders can be either beneficial or detrimental to firms.

The phenomenon of borders will remain in our world, however in a 'dynamic' way like the heads of the ancient monster Hydra. Cutting off one head will cause two or more new ones. To extinguish such a monster definitely would really require a

superhuman effort like that of the divine hero Heracles. But Heracles will probably not come in our lifetime and Hydra will survive.

The core message of my speech may remind some of you of the often ambiguous meanings of the oracle of Delphi. In fact, I must admit, I have no simple or unequivocal recommendation for you - except the one which sensitive visitors of the oracle already could read over the entrance door of the holy temple there: 'Recognize yourself!' Perhaps it means also: 'Recognize yourself and your borders!'

To manage life in a world of borders to one's benefit would mean to follow the typical approach of Odysseus who was called the most resourceful and crafty and cunning of the Greek heroes. Sometimes it will mean integrating and sometimes disintegrating groups of people, actions, organizations, economies, states, or whatever, however only after a careful analysis of the consequences.

This type of approach towards the border phenomenon means that entrepreneurs are advised to observe borders continuously, to influence changes of borders and react to changes of borders as the way of life for Odysseus was to stay the course in dangerous waters and crossing borders if necessary or beneficial. The enterprise odysseys of today seem to be quite similar.

However, such odysseys sometimes also offer pleasant phases like for Odysseus when he landed on the Croatian island of Ogygia, nowadays called Mljet, and spent some time with beautiful Calypso there, and hopefully, finally, they will end up in the achievement of one's real strategic goal.