

ENTITY, IDENTITY AND GOVERNANCE

Presented in the Symposium: Stakeholder Theory & Governance
Western Academy of Management, Midway UT, March 20, 2009

By Ron Mitchell, Texas Tech University

Donaldson & Dunfee (1999) suggest that:

“ . . . our market system has a positive morality where certain conditions are met (equality of information, lack of negative externalities, and others); but where market failures exist, all participants have duties to “maintain the system.”

But what if conditions are such that we cannot assume away externalities—positive or negative?

What then? What are our duties?

In this paper, I hope to demonstrate that alternatives exist that can enable us to better maintain a market system based upon a positive morality that takes account of externalities. Negative externalities appear as social issues: “...for example, the tobacco and alcoholic drinks industries are associated with highly visible social issues. They are thought to produce large social externalities (e.g. crime and health)”(Brammer & Millington, 2005:¹ 33, 41). As an official of the UN, Dubeé (2006) asserts the severity of the externalities problem and the importance of its solution by framing it in terms of “structural violence” within the global economic system:

“Structural violence can be “any constraint on human potential due to economic and political structures”, including unequal access to resources, political power, education, health care or legal standing” 2006: 252.

“ . . . a growing awareness of the current and future impact of externalities on current and future generations leading to reduction where possible and full cost absorption where not would also tend to reduce the structural violence” 2006: 256.

¹ (Footnote to this article: The alcoholic beverage, tobacco, defence and pharmaceutical industries were defined as having significant social externalities.)

Thus, where externalities are not effectively addressed, we have a duty to explore alternatives to develop better ways to maintain the market system.

THEORY

In this paper, the alternative I propose is to examine the entity, identity, governance relationship. In particular, I seek to delineate a possible system where the following relationship might hold:

$$\textit{Entity} \equiv \textit{Identity} \equiv \textit{Governance}$$

and I seek to employ the stakeholder idea as a point of departure in this analysis.

Entity

Some critiques of stakeholder theory suggest that: “Freeman presents an incomplete linkage between actors, and between internalities and externalities: (Key, 1997: 322). Others (e.g. Dew and Sarasvathy, 2007) expand and focus this argument by implicating entrepreneurs—to the extent that in the creation of economic entities they either fail to account for the externalities problem, and/ or fail to solve it:

“In the laissez faire regime the entrepreneur has complete freedom of contract, the success of the innovation depends only on its competitive advantage in the marketplace and negative externalities inevitably fall on whom they fall . . .

The alternative pareto-progress regime . . . an innovation would have to meet the criterion that it creates wealth for some stakeholders without reducing wealth for others, i.e., it is pareto-improving. Therefore, entrepreneurs would have to compensate stakeholders for the negative externalities they incur, i.e., make side-payments to these afflicted stakeholders . . .

“In these circumstances, imposing either unlimited liability for externalities or compensatory payments for stakeholders is implausible because either one destroys the entrepreneur’s incentive to innovate” 2007: 274.

Rowley’s work (1997, 1998) suggests a possible alternative: to think in terms of stakeholder “networks” (1997) and he further describes these relationships as resembling a “net or mesh” suggesting a way to conceptualize the complexities of actual stakeholder relationships as going

beyond the simple bilateral contracting that has become a foundation concept for explaining the existence of firms, as further explained by Velamuri and Venkataraman (2005: 249):

“This nexus-of-contracts view has attempted to resolve the stockholder/manager agency problem by making managers fiduciaries for stockholders. The literature within [this] tradition is in agreement on three central characteristics of the firm: first, that managers should owe a fiduciary duty only to owners (Boatright 1994; Williamson 1985); second, that only owners, who are the residual claimants, should have voting rights (for example, Williamson 1984); and third, that the contracting relationships should be bilateral, i.e., that the stockholders, who are the central contracting party, ‘have rights to renegotiate any input’s contracts independently of contracts with other input owners’” (Alchian and Demsetz, 1972: 783).”

But as an alternative to the foregoing conceptualization: how would such a network-based entity work? Enter Identity.

Identity

Identity (expressed as the “frame problem”) is at the core of, and is one of the thorniest problems in epistemology, as articulated by Lormand (1990):

“The frame problem is widely reputed among philosophers to be one of the deepest and most difficult problems of cognitive science.” The epistemological frame problem is “whether it is possible, in principle, to limit the scope of the reasoning required to derive the consequences of an action.” (Stanford Encyclopedia of Philosophy, 2004).

Put in terms of the Entity \equiv Identity discussion, the frame problem leads us to consider the relationship between means and ends—between how those who create the value (whether owners or not) can receive a fair portion of its distribution (e.g., Venkataraman, 2002). It is well accepted that an entrepreneur should be compensated for bearing Knightian uncertainty (i.e. receive entrepreneurial rents) (e.g. Rumelt, 1987). But for those many economic actors that are excluded from the firm based upon the nexus-of-contracts/ “stockholder” logic, a network-based conceptualization would suggest that the “identity” of those to be included within a distribution regime should also be considered. What is required, is a way to accomplish this (i.e. to articulate

a procedural normative foundation for the ownership rights of stakeholders.) Velamuri and Venkataraman (2005) propose a possible solution. They suggest:

“We must resort to Nozick’s Entitlement Theory (1974) to give a procedural normative foundation for the ownership rights of the diversified investor. According to Nozick (1974), if a holding has been justly acquired through transfer (in this case by the investor) from someone else entitled to the holding (the entrepreneur), then the acquirer (the investor) is entitled to the holding. Holdings in this case are the rights that attach to the ownership of the firm. To satisfy Nozick’s Entitlement Theory, the transfer of ownership must pass two tests:

1. Does the entrepreneur have alternatives to transferring all his rights to the diversified investor? The answer is that he clearly does: he can choose to raise further capital through debt, which will not necessitate the transfer of ownership rights to the debt holders. Whether he chooses equity or debt then becomes an empirical question. The answer depends on many issues, such as optimal capital structure and moral hazard, which have been extensively covered in other literature.
2. Is the right to acquire equity in the firm available to all constituencies? An affirmative answer to this question would satisfy Rawls’s second (difference) principle, which states that social and economic inequalities “are to be attached to positions and offices open to all under conditions of fair equality of opportunity” (Rawls, 1996: 6). The answer to this question is clearly in the affirmative, since employees, suppliers, customers, and noncontracting stakeholders can all purchase equity in the firm” 2005: 258.

Velamuri and Venkataraman (2005) further suggest that:

“ . . . there are three broad ways in which we might strive to achieve just outcomes for all stakeholders. The **first** is a macro-level remedy, which involves legislation requiring compliance by all firms. The laws of most countries provide many such protections, such as a constitution, the Occupational Health and Safety Act (OSHA) of the US, and the laws against discrimination in the workplace. These laws are also referred to as exogenous contracts, in that they are exogenously imposed on the contracting parties. The **second** is a firm level remedy, which involves a “constitution” for each firm, whereby all stakeholder groups voluntarily make certain precommitments to each other. The **third** relies on the moral deliberation and judgment of the manager” 2005: 259.

In this paper, I propose a fourth means whereby the Entity \equiv Identity reconciliation may proceed, as follows: that we change the frame in a different, but much more explicit-identity way, which will also have the advantage of connecting well to the Identity \equiv Governance discussion.

Governance

The concept of substitution at the margin (Coase, 1937) continues to have far-reaching influence in answering critical questions concerning economic organization. Its noteworthy contribution to distinguishing market from hierarchical governance is now “much cited AND much used.” Furthermore, it is now becoming clear that the idea of a margin at which substitutions do or do not occur based upon relative transaction costs is tractable for making other governance-based distinctions as well. In particular, when the question of whom the entrepreneur engages as s/he directs production—e.g. shareholder v. stakeholder—arises, the concept of substitutions made at some margin based upon relative transaction costs appears to have ever-broadening applicability.

The question of whom to engage and with what effect (on theories of the firm that explain consequent governance) might therefore be said to turn on the extent to which transaction costs are economized through such engagement processes. Where uncertainty and frequency of transacting comprise the context, we might further assert that the transaction costs coincident with bounded rationality, opportunism, and specificity (e.g. Williamson, 1985: 31) offer the entrepreneur opportunities for substitutions of various sorts. Certainly, in the bundling of transactions into firms, the case has been well-made that market failure triggers the governance substitution of hierarchy for market (e.g. Coase, 1937; Williamson, 1975). But what of the remaining—and perhaps much more extensive—set of substitutions at the other bundling-based margins: of firms into industries; of industries into economies; and of economies into societies? The decision of whom to engage (stakeholder v. stockholder) at these “margins” is relevant to the discussion, to the extent that such discussion—as Coase suggests—concerns decisions by some industrial-, economy-, or institutional “entrepreneur” who directs relevant production to lower relative transaction costs. That is, if such a decision maker is charged with

“directing production efficiently,” and if this mandate comprehends a sphere of sufficient size to include, but to go beyond firm formation; then the scope of the efficiency charge must extend beyond first-order economizing that results only in efficient firm formation (e.g. Williamson, 1991), to encompass entity formation based on first-order economizing that includes applicable externalities (especially if externalities are defined in terms of one level of analysis as seen through the lens of another: e.g. firm externalities as viewed through society’s lens).

In this paper, I therefore argue that when economizing on transaction costs within a comprehensive context that includes externalities (i.e. casts a much wider net of inclusion of transactions within an entity): that a “theory of the entity” is required; and furthermore, that stakeholder theory has emerged to provide such theory. Thus, I would assert here that it’s not so much the conception of the stockholder model that must be scrutinized; but rather, it is the conception of the entrepreneur: as “substituter at the margin in general; rather than as former of firms, in particular” that must change. This can be accomplished with a revised conceptualization of the Entity \equiv Identity equivalence.

Entity \equiv Identity: The Joint-stake Company

To accomplish a new conceptualization of the firm/ entity I renew the discussion of the “joint-stake company,” a play on John Stuart Mill’s (1848) notion of the joint-stock company, that recently appeared in the literature (Agle, et al., 2008). A joint-stock company is created through the pooling of investor resources to accumulate sufficient capital for large ventures. A joint-“stake” company would cast a net that would more broadly encompass the actual resource pool (thereby including externalities in the value creation and distribution process.) The attributes of the Entity \equiv Identity interface impacted by a revised concept of a value-creating enterprise as a joint-stake company might include property rights, taxation systems, currencies,

regulation, claims, accountability, and accounting systems. A comparison between present joint-stock company assumptions versus future joint-stake arrangements is presented in Figure 1.

{Insert Figure 1 about here}

As suggested in Agle, et al. (2008), two key implications for the Entity \equiv Identity interface are the following:

- instead of only having investor-based claims—stakeholder claims could be expanded to include contribution-to-opportunity-, and value-creation-based claims (e.g. Schneider, 2002);
- accountability-to-opportunity (i.e., accounting for the favorable occurrences of “what might be,” or “what *is* but might not have been,” where opportunity is defined to be a favorable juncture of circumstances)

And it would be within a further analysis of contribution-to and accountability-to opportunity that Entity \equiv Identity equivalence might be further developed. For example, the firm as an accounting “entity” could be re-conceptualized according to an externality-encompassing “identity.” This would require a revision of general-ledger-keeping concepts to add the notion of balance-free-accounting (e.g. Agle, et al., 2008).

Identity \equiv Governance: Balance-free Accounting

As more fully described elsewhere (Agle, et al., 2008), balance-free accounting has been defined in terms that substitute in the place of the historically-developed dollar-cost balances resident in general ledger accounts, information (based on some readily-discernable commonality) that accomplishes the comparison objectives of financial reporting (i.e., comparisons of present results to past results, to present (e.g., cross-industry) benchmarks, and to future forecasts/ budgets). Such common bases for comparison have been termed compositional similarities (e.g. Rousseau, 1985; Chan, 1998), where commonality-based comparison can be

accomplished using, for example functional/ additive, direct consensus, referent-shift, dispersion, and process models of compositional similarity (Chan, 1998). Using such models, the development of balance-free accounting might be focused on the identification and explication of *systems of compositionally consistent comparison across the past, present, and future*. This addition to the accountability lexicon could have helpful consequences, according to the following logic.

Enterprises tend to be enabled and constrained by their measurement systems. There is common wisdom among managers that once one begins to measure something, many other things (e.g., externalities) don't get captured. Enterprise accountability is in this sense constrained by the measurement systems employed. This is one of the reasons that accounting theorists and practitioners have problems with historical cost-based accounting: important phenomena are excluded from the accounting process. Transactions have been conceptualized to be the basis for balance-free-accounting, because they have sufficient generality in their attributes such that they were amenable to an audit system that has comparability of financial results as a key objective.

The kinds of metrics that we would therefore find in transaction-based balance-free accounting also would be universal units in this sense. So in trying to enable a more-inclusive entity, through a revision of the accounting identity, we wouldn't necessarily do away with GL accounts on a balance sheet: the real accounts (the essentials of assets, liabilities and equities) or the nominal accounts (the incomes and the expenses). However, by employing the general properties of arm's-length transactions— exchanges between willing buyers and willing sellers—we could use simple statistics like transaction counts to construct new metrics that expand the accountability system: proportions, for example, for both system classification, and for results reporting.

For joint-stake-company accounting, it would mean that this value-network-type “company” could then become accountable, for example, according to “stakes” computed as a proportion of transaction flow. Perhaps such “value-network-type companies” would account for transaction-based statistics across borders, across jurisdictions, across industries: enabling an “across-across-across” (i.e., a multi-faceted compositional) approach that liberates our thinking and our management processes from limiting diminishing-returns-type boundaries. It would be an integrated system in the sense that such ideas have been suggested by the other authors in this article. The flow assumption could be based upon a value chain “system.” Of course, we would then require a new identity equation.

The present identity equation used in today’s accounting statements is well-known: assets equal liabilities plus owners’ equity ($A = L + OE$). But what if there were to be a system-based identity equation that utilizes transaction counts to establish the proportionate stakes in outputs? In this example the identity equation for balance-free joint-stake company accountability might be based on the well-known system equation ($I + P = O$): *inputs plus process equals outputs* (i.e., *transaction-count contribution to inputs + transaction-count contribution to processes = proportionate stake in outputs*, where the proportion of transactions devoted to inputs, and to production/ service processes using such inputs would thereby provide proportions for the allocation of the outputs). To establish accountability on a GL-balance-free basis (to better manage the understatement problem of accountability-to-opportunity) we would in this way provide a means whereby to identify which stakeholders contribute to the input, to the process, and to the output transactions across heretofore traditional boundaries, and within new joint-stake entities. We would thereby capture a great many more un-captured externalities. The implications of such an approach for further analysis and discussion would be, for example,

more-universal comparability, decreases in entropy, and an increase in the value created by the joint-stake enterprise.

Consequently, Pacioli's (1494) "shall give" and "shall receive" notion that founds double-entry accounting systems would take on added, amplified, and value-creating meaning. As Venkataraman (2002) asserts: two processes—value creation and value sharing—are common ground for both the study of business and of ethics. This assertion echoes the writings of Victor Hugo, who in the 19th Century also suggested that the two main problems faced by any society are: (1) the production of wealth, and (2) its distribution (Hugo, 1982 (1862): 722). A new system-based accounting equation might therefore (as it contributes to the establishment of accountability-to-opportunity) also contribute to the production (inputs + processes)/ distribution (output value distribution) conversation, thus focusing further attention on the still-present and thorny dilemma (Jensen, 2002) as it concerns both the production and distribution of value: providing a definition for stakeholder-generated "better"; and defining an accountability stewardship that can be evaluated in a principled way.

How would such a system provide accountability-to-opportunity? Could it not be argued that in the same sense that residual claims of stockholders are now divided according to ownership proportion in a joint-stock company, that joint-stake-based apportionment might be possible? Could it not be argued that according to the laws of "increasing returns" (e.g. Arthur, 1996) stockholders with property rights in a joint-stake-value-network-type "company" could (for the same reasons they invested) cede to stakeholders (whose incremental-value-creating incentive alignment could effect increasing returns), an opportunity-share of increased residuals (to be apportioned on the basis of balance-free/ new-identity-equation-based proportions)? In this manner the Entity \equiv Identity interface enables the further development of the Entity \equiv Identity \equiv Governance interface.

The Entity \equiv Identity \equiv Governance Interface

If the Entity \equiv Identity notion suggests a firm with $A = L + OE$, then such an entity cannot fully account for externalities. And if we wish to reconcile the value-creation/ value distribution requirements suggested by the externality-encompassing properties of accountability-to-opportunity; then the new identity equation $I + P = O$ is necessitated. Thus, according to this revised-identity logic, and consistent with a networked v. dyad-based conceptualization of a firm, it is insufficient to cast, for example, communities of value-input stakeholders as the equivalents of $A = L + OE$ -type entities. One must cast these contributing entities as part of the equivalence in a newly-conceptualized entity: the joint-stake network (company).

This assertion is only sensible, if the strong-equilibration forces portended in Davis' Iron Law (which states that "in the long run, those who do not use power in a manner which society considers responsible will tend to lose it" (Davis, 1973: 314)) operate over the long run. By way of explanation, Venkataraman (2002) suggests that the entrepreneurial process resolves such anomalies through either strong or weak stakeholder equilibration processes. Mitchell and Cohen (2006) summarize this perspective as follows:

Weak equilibration forces are those that result in a more evolutionary – or incremental – process of developing new goods and services (akin to "rebuilding a stakeholder ship plank by plank while it still remains afloat"), while strong equilibration forces of "stakeholder innovation" result in the more revolutionary processes of creative destruction (sinking "the unfair and inefficient corporate ship while evacuating all stakeholders to the safety of a new vessel that is better than the old") (Venkataraman, 2002: 54). According to this logic, variations in the strength of stakeholder equilibration are also likely to be useful in the suggestion and situation of a stakeholder theory of the entrepreneurial firm (Mitchell & Cohen, 2006:2).

I argue that it is likely that eventually, the revolutionary forces of strong equilibration will mandate changes in the theory-of-firm governance, unless weak-equilibration thoughtfully-implemented alternatives are undertaken, based in substitutions at the margin of an identity that

UNSustainably excludes externalities (namely $A = L + OE$) for one that includes them (i.e., $I + P = O$). Accordingly, I argue that this extended-version substitution at the margin process that (admittedly only a sketch) can be voluntary or involuntary; but that over the long run, some version of it will inevitably emerge. Arguably, straw-man characterizations that cast as soft-hearted and unworkable the idea of a stakeholder-based theory of Entity \equiv Identity \equiv Governance will likely be seen to have been red herrings that distracted mankind from getting on with the business of correcting the limited-scope, externality-blind mistakes of dyad-based contract-nexus-founded arguments that continue to impede our economic progress because they disenfranchise large portions of those who create the value. Simply stated, new governance requires a new identity which in turn requires a new conceptualization of the entity—as a joint-stake company.

DISCUSSION

In his 1991 Nobel Lecture Coase described his contribution to economics as one that:

“ . . . has been to urge the inclusion in our analysis of features of the economic system so obvious that, like the postman in G. K. Chesterton’s Farther Brown tale, “The Invisible Man,” they have tended to be overlooked. Nonetheless, once included in the analysis, they will, as I believe, bring about a complete change in the structure of economic theory, at least in what is called price theory of microeconomics. What I have done is to show the importance of the working of the economic system of what may be termed the institutional structure of production.”

In like manner, we must now address the frame problem (whether it is possible, in principle, to limit the scope of the reasoning required to derive the consequences of an action) as it concerns *both* production and distribution. In this paper I have tried to make the case that we, as society, have an evolutionary opportunity to include the stakeholders in the concept of firm governance, before—as a revolution—it is mandated in a manner that requires more than mere substitutions at the margin; that invokes second-order entity-displacement/ governance-replacement-type consequences. We have seen it before in the rise of state-sponsored socialism-

based command economies; and in social upheavals such as the French Revolution. When the solving of this type of problem can be accomplished by simply addressing first-order costs (e.g. Williamson, 1991) with a new conception of governance that accounts for externalities, why court the upheavals of radical-religion or populist-confiscatory revolutions that threaten to tempt the repetitive cycle of history? Must the insularity of past success and privilege provoke stakeholder mutiny?

The stakeholder-theory-improvement dialogue has now, I believe, matured to the point that such a new conceptualization is now possible. In the so-called stockholder v. stakeholder debate, if one eliminates the sketchy characterizations of one about the other, and instead focuses on solving the age-old accounting problem of “shall give” and “shall receive” (Pacioli, 1494)—or as others have referred to it: the problem of the production and distribution of wealth (Hugo, 1984 [1862]: 722; Venkataraman, 2002)—one can make helpful steps toward clarifying the role of stakeholder theory in governance, as conceptualized within organization economics (e.g. Williamson, 1985). Of course—as with any solution that purports to be bigger than the problem it is set to address—a new set of issues surfaces (e.g. Agle, et al., 2008). These have emerged in the current dialogue.

Current Dialogue

Recently, current issues leading toward superior stakeholder theory development have been suggested by Donna Wood, Ed Freeman, Michael Jensen, and Tom Donaldson (please see Agle, et al., 2008). These observations seem to indicate that progress toward stakeholder-based governance is ever-more possible. A summary of these perspectives is illustrative.

Wood (In Agle, et al. 2008: 160) focuses our attention the assumptions and justifications for a theory that provides credible alternatives to certain received economic thought. She

outlines the “untenable assumptions built into value-maximizing economics-based logic, at least insofar as it is applied to any actual economy,” as follows:

“Jensen, 2002, argues that “two hundred years of work in economics and finance implies that in the absence of externalities and monopoly (and when all goods are priced), social welfare is maximized when each firm in an economy maximizes its total market value.” These untenable assumptions include:

1. Rational actors try to maximize their self-interest, which is defined in narrow economic terms.
2. “Maximizing” necessarily involves limited resources that cannot be deployed in multiple directions without loss.
3. Purposeful behavior is maximizing behavior.
4. Externalities are absent.
5. Monopoly is absent.
6. All goods are priced.
7. Social welfare equals efficiency.
8. A firm’s market value is its total value.

Freeman (In Agle, et al. 2008: 163-164) suggests that development of theories of the entity move beyond the well-worn “Friedman vs. Freeman” (stockholder v. stakeholder) arguments to look collaboratively and operationally at the pragmatics of better stakeholder theory to consider four main ideas that [can] get stakeholder theory off the ground: (1) the separation fallacy: that it is no longer useful to separate questions of business and questions of ethics; (2) the integration thesis: that it doesn’t make any sense to talk about ethics if we are unwilling to talk about the attributes of human beings, as whole, fully-integrated individuals, with names, faces, families, and pasts; (3) the responsibility principle: to justify our lives to ourselves and to others, we need the idea of responsibility for ourselves and our actions; and (4) the open question argument, to ask: (1) If this decision is made, for whom is value is created and destroyed, who is harmed and benefited? (2) Whose rights were enabled or not? (3) What kind of person will I be if I make this decision this particular way?

Jensen (In Agle, et al. 2008: 167) addresses some of these issues by arguing for the compatibility of a superior stakeholder theory, ethics, fair distribution, and good management with long-term value maximization, suggesting that it is time we take it as given that maximizing the value of a firm's equity will not produce maximum value of the firm as a whole. And it will certainly not produce maximum value for society . . . Maximizing *total firm value* will get us to the efficient frontier for society assuming there are no single price monopolies, no externalities, and all goods are priced.”

Donaldson (In Agle, et al. 2008: 172, 175, 176) suggests a lens whereby the emergence and influence of the stakeholder idea can be seen—in comparison to the Copernican Revolution (where solar-centric astronomy was substituted for geo-centric)—to be the Normative Revolution where it is now recognized within society that (. . . any economic system or institution whatsoever stands in need of normative justification; and . . . managers must ascribe some *intrinsic* worth to stakeholders), which like its precursor, preserves valuable ideas from the past, while progressing toward ideas that can add more value in the future. With this comparison, he suggests that “the primary goal of the corporation will remain the maximal benefit, i.e., financial benefit, that flows to its owners. The sun still rises. Yet, thanks to the Normative Revolution, we are coming slowly to understand more clearly *why* that is true. And, most important, in this new, braver economic theory, people matter more.”

Each of these perspectives suggests the need for the instrumental vision of stakeholder utility to be enacted, for the outlines of, and the kind of thinking required for, the new-type theory of the entity that might emerge from the stakeholder theory notion. This type of entity has been suggested to be more like a “joint-stake” company (in contrast to the joint-stock company), which focuses specifically governance implications (Mitchell, in Agle, et al. 2008: 176-181).

Conclusion

History may well show that—due to pressures from economic disenfranchisement, environmental concerns, globalization, market instabilities, the consequent resurgence of radical socialism or radical religion—the partial-accounting model that currently founds firm governance was, in fact, outmoded long before 2009; and that transition to a more comprehensive model has been underway for some time. It therefore would seem from the foregoing reasoning, that rather than focusing on continuing criticism of the stakeholder idea as impractical and soft-hearted (possibly even soft-headed), that this focus should rather be upon a prevalent misidentification of entity-creation and entity-governance entrepreneurship, as founded upon a misconceived and too-narrow Entity \equiv Identity \equiv Governance interface that is now outmoded. I believe that it is not too late to correct these mistakes, and to substitute at the margin—based upon a system-based identity—new entities that are sufficiently robust to respond to new-reality pressures and which permit all participants in the economic system to each perform their duty to maintain the economic system upon which we all rely.

REFERENCES

- Arthur, B. 1996. Increasing returns and the new world of business. *Harvard Business Review* (July/ August):100-109.
- Bradley R. Agle, Thomas Donaldson, R. Edward Freeman, Michael C. Jensen, Ronald K. Mitchell, and Donna J. Wood. 2008. Dialogue: Toward superior stakeholder theory. *Business Ethics Quarterly*, 18(2): 153-190.
- Alchian, A. and H. Demsetz 1972. Production, information costs, and economic organization. *American Economic Review* 62: 777– 795.
- Boatright, J. R. 1994. Fiduciary duties and the shareholder–management Relation: or, what’s so special about shareholders? *Business Ethics Quarterly* 4(4): 393–407.
- Brammer, S., Millington, A. Corporate Reputation and Philanthropy: An Empirical Analysis. *Journal of Business Ethics* (2005) 61: 29–44.
- Chan, D. 1998. Functional relations among constructs in the same content domain at different levels of analysis: A typology of composition models. *Journal of Applied Psychology*, 83(2): 234-246.
- Coase, R., H. 1937. The nature of the firm, *Economica New Series* 4:. In G. J. Stigler & K. E. Boulding (Eds.), Readings in Price Theory: 386-405. Homewood, IL: Irwin.
- Coase, R. H. 1991. 1991 Nobel Lecture: The institutional structure of production. The Nobel Foundation.
- Davis, K. 1973. The case for and against business assumption of social responsibilities. *Academy of Management Journal*, 16: 312-322.
- Dew, N., Sarasvathy, S. D. 2007. Innovations, Stakeholders & Entrepreneurship. *Journal of Business Ethics* (2007) 74: 267–283.
- Donaldson, T, & Dunfee, T. 1999. *Ties that bind*. Harvard Business School Press.
- Dubee, F. 2006. Structural violence and productivity: The role of business and the United Nations Global Compact. *International Journal of Productivity and Performance Management* Vol. 56(3), 2007: 252-258.
- Hugo, V. 1982 (1862). *Les miserables*. Middlesex, England: Penguin Books, Ltd.
- Jensen, Michael C. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly* 12 (2): 235-47.
- Key, S. 1997. Toward a new theory of the firm: a critique of stakeholder “theory. “ *Management Decision* 37 (4): 317-328.
- Lormand, E. 1990. Framing the Frame Problem. *Synthese* 82(3): 353–374.
- Mill, J. S. (1848). Of production on a large, and production on a small scale. In J. S. Robson, *Principles of Political Economy*. Toronto: University of Toronto Press.
- Mitchell, R. K., & Cohen, B. 2006. Toward a stakeholder theory of the entrepreneurial firm. *Journal of Small Business Strategy* Vol. 17: 1-16.

- Nozick, R. 1974. *Anarchy, State and Utopia*. Basic Books.
- Pacioli, L. 1494. *Summa de arithmetica, geometrica, proportioni et proportionalita*. Venice, Italy.
- Rawls, J. 1996. *Political Liberalism*. Columbia University Press.
- Rousseau, D. M. 1985. Issues of level in organizational research: Multi-level and cross-level perspectives, *Research in Organizational Behavior* 7: 1-37. Greenwich, CT: JAI Press.
- Rowley, T. (1997), Moving beyond dyadic ties: a network theory of stakeholder influences, *Academy of Management Review*, Vol. 22(4): 887-910.
- Rowley, T. (1998), Does relational context matter? An empirical test of a network theory of stakeholder influences. Presented at the Academy of Management 1998 Meeting, San Diego, CA.
- Rumelt, R. P. 1987. Theory, strategy, and entrepreneurship. In D. J. Teece (Ed.), *The Competitive Challenge: Strategies for Industrial Innovation and Renewal*: 137-158. Cambridge, MA: Ballinger.
- Schneider, M. 2002. A stakeholder model of organizational leadership. *Organization Science* 13(2): 209-220.
- Velamuri, S. R. & Venkataraman, S. 2005. Why Stakeholder and Stockholder Theories Are Not Necessarily Contradictory: A Knightian Insight. *Journal of Business Ethics* 61: 249–262.
- Venkataraman, S. 2002. Stakeholder value equilibration and the entrepreneurial process. *Business Ethics Quarterly: The Ruffin Series*, 3: 45-58.
- Williamson, O. E. 1975. *Markets and Hierarchies*. New York: The Free Press.
- Williamson, O. E. 1984. Corporate governance. *Yale Law Journal* 93, 1197–1230.
- Williamson, O. E. 1985. *The Economic Institutions of Capitalism*. Free Press, New York.
- Williamson, O. E. 1991. Strategizing, economizing, and economic organization. *Strategic Management Journal*, 12(S): 75-94.

Figure 1 (from Agle, Mitchell, et al., 2008)

Social Arrangements	Joint-stock:	Joint-stake:
Market for property rights	<ul style="list-style-type: none"> • Stock markets 	<ul style="list-style-type: none"> • Markets for value-network shares
Taxation	<ul style="list-style-type: none"> • Bottom-line-based income tax 	<ul style="list-style-type: none"> • VAT (value-added taxation)
Currency	<ul style="list-style-type: none"> • National 	<ul style="list-style-type: none"> • Transnational
Regulation basis	<ul style="list-style-type: none"> • National standards 	<ul style="list-style-type: none"> • International standards
Type of residual claim	<ul style="list-style-type: none"> • Investor*-based claims 	<ul style="list-style-type: none"> • Opportunity/ value-creating
Accountability	<ul style="list-style-type: none"> • Accountability-to-control 	<ul style="list-style-type: none"> • Accountability-to-opportunity
Basis for accounting	<ul style="list-style-type: none"> • Historical cost 	<ul style="list-style-type: none"> • “Balance-free accounting” transaction-count proportions

* Explicit v. implicit