ENTREPRENEURSHIP AND STAKEHOLDER THEORY: COMMENT ON RUFFIN LECTURE #2

DELIVERED BY PROFESSOR S. VENKATARAMAN

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ABSTRACT: In his Ruffin Lecture on stakeholder value and the entrepreneurial process, Professor S. Venkataraman asserted that two processes: value creation, and value sharing, are common ground for both the field of business ethics and the field of entrepreneurship (Venkataraman, 1999). In this article I further explore the connections between entrepreneurship and stakeholder theory raised in the Lecture, as they relate to both the production and the distribution of wealth in society. Through the application of transaction cognition theory, which suggests that a type of stakeholder-centered expert transacting script can integrate entrepreneurship and stakeholder theory through concepts from its sub-specialty, expert information processing theory, I employ a cognitive theory lens to suggest a set of integrating ideas and implications that attempt to complement and expand on Professor Venkataraman's thesis. Implications for research and education conclude the article.

In his Ruffin Lecture on stakeholder value and the entrepreneurial process, Professor S. Venkataraman asserted that two processes—value creation and value sharing—are common ground for both the field of business ethics and the field of entrepreneurship (Venkataraman, 1999). This observation echoes the writings of Victor Hugo, who in the nineteenth century offered his opinion that the two main problems faced by any society are: (1) the production of wealth, and (2) its distribution (Hugo, 1982 [1862]: 722). In this article I hope to further explore the connections between entrepreneurship and stakeholder theory as they relate to both the production and the distribution of wealth in society. As a person who has been interested in both entrepreneurship and stakeholder theory for the past decade, I have come to share Professor Venkataraman's belief in a common ground between the fields. I am heartened by increasing interest in this topic, and I welcome the opportunity to contribute my thoughts on some of the issues raised in his Lecture.

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As it presently appears, both fields—entrepreneurship and stakeholder theory—are still assessing the scope of their domains, and are developing definitions for key constructs. For me, the challenge of reconciling and linking entrepreneurship and stakeholder theory has led to the application of cognitive concepts, which help me to interpret and integrate the fields using theory that is broad enough to comprehend the variety of variables and phenomena that each field seeks to explain. In this article, I offer an integrative depiction of the links between entrepreneurship and stakeholder theory—one that draws a somewhat more cross-disciplinary theoretical picture (involving entrepreneurship and stakeholder theories viewed through the lens of social cognition theory). The approach may as a result "sketch outlines," rather than accomplish a "full shading" of meanings, but I am hopeful that this portrayal will be able to demonstrate, in a manner complementary to the work of Professor Venkataraman, the existence of a common ground between entrepreneurship and stakeholder theory.

In the paragraphs that follow—especially for the benefit of readers who may be more familiar with one field than the other—I shall briefly set forth my version of the cognitive account relative to each field, offer my observations about the connection of both accounts to the issues of production and distribution of wealth, and suggest some possible implications of this connection for theoretical development.

Entrepreneurship Theory: A Cognitive Account

After over 200 years of study in the field of entrepreneurship, no theory that clearly explains when an entrepreneur might appear or form a venture has been developed (Bull & Willard, 1993: 183). Theories that have attempted to explain entrepreneurship stem from research and theory building in at least three primary fields: economics, psychology (personality characteristics), and strategic management (new venture performance). Each has weaknesses that suggest additional theory development. Social cognition theory provides the basis for a cognitive account of entrepreneurship that begins to redress some of the limitations of prior theory, and helps to more clearly explain the phenomenon of entrepreneurship.

The Contributions and Limitations of Prior Entrepreneurship Theories

The economics, personal characteristics, and performance theory streams in the field of entrepreneurship each make contributions to the literature. Economic theories explore the role of the entrepreneur as the creator of new enterprise (Low and MacMillan, 1988; Rumelt, 1987; Schumpeter, 1934), suggesting an outcome-based approach. Also, during the past 30 years, personal characteristics research has attempted to "describe" entrepreneurs according to psychological attributes, such as need for achievement, the need to control and direct, self-confidence, a sense of urgency, good health, comprehensive awareness, realism, superior conceptual ability, needs for status, objectivity in interpersonal relations, emotional stability, attraction to challenge, level of creativity, belief in an internal locus of control (belief in the ability to control the environment through individual actions), risk-taking propensity, and more (Coulton and Udell, 1976; McClelland, 1965; McClelland and Winter, 1969; Rotter, 1966; Welsh and White, 1981). These efforts can be termed a characteristics-based stream, and appear to have captured the popular imagination, such that the popular press and many common assumptions about entrepreneurship (e.g., the idea of the "born entrepreneur") are founded in this stream. Finally, as an outgrowth of strategic management research, attention during the past 15 years has been focused on how the performance of the venture itself is influenced by the entrepreneur. This stream of research is known as the new venture performance stream (Herron, 1990; Kunkel, 1991; McDougall, 1987; Sandberg, 1986). At present, then, entrepreneurship research may be seen to be standing at the confluence of at least three literature streams: economic, characteristics, and new venture performance.

The limitations and challenges in entrepreneurship research vary depending upon the particular theory stream. For example, the economic stream has not been sufficiently operationalized as economics stream researchers continue to advocate economic theories of entrepreneurship, but often leave the empirical tests to future research (Baumol, 1993; Bull and Willard, 1993). Efforts to isolate psychological or demographic characteristics that are common to all entrepreneurs have met with failure due to lack of replicability and/or the inability to account for alternative explanations (Brockhaus and Horowitz, 1986; Bull and Willard, 1993; Sexton and Bowman-Upton, 1991). No "typical" set of characteristics for an entrepreneur has been consistently supported within the literature. And, until Herron (1990) demonstrated that entrepreneurial skill and skill propensity are related to performance, the persistent attempts of researchers in the strategic management stream to link entrepreneurial characteristics to performance (Cooper, Willard, and Woo, 1986; Kunkel, 1991; MacMillan and Day, 1987; McDougall, 1987; Sandberg, 1986) met with little success.

Yet, despite this lack of evidence, people continue to consider entrepreneurs as individuals to be critical to economic well-being in society (Hall and Hofer, 1993; Herron, 1990; Sandberg, 1986; Stuart and Abetti, 1990). Thus, expectations for entrepreneurship theory remain to some degree unfulfilled when evaluated on the basis of the research reported to date. Therefore, new approaches that explain the contribution of entrepreneur, that encompass both the individual entrepreneur and the strategic and economic environment, have been called for (Bull and Willard, 1993; Herron, 1990; Sandberg, 1986; Stevenson and Harmeling, 1990; Willard, Kreuger, and Feeser, 1992). It is in providing this needed integration that concepts developed within social cognition theory make a contribution.

The Potential for Social Cognition Theory in Entrepreneurship Explanations

Social cognition theory originally emerged to manage the category of problems that require such integration: an explanation of individual behavior as it is shaped by the person-environment interaction. Social cognition theory considers that individuals exist within a total situation or *configuration of forces* described by two pairs of factors: one pair being *cognition* and *motivation*, and the other being the *person* in the *situation* (emphasis in original) (Fiske and Taylor, 1984: 4–5). Social cognition theory requires that models used to explain individual behavior should approximate comprehensive reality (cognition and motivation; *and* the person-in-situation) as perceived when information about these two factor pairs is processed by each individual (Fiske and Taylor, 1984: 5, 16). In this manner, individual information processing is associated with individual decision making within a total situation, which suggests the extension of the social information processing perspective (Salancik and Pfeffer, 1978) in the development and justification of more integrative models.

Social information processing theory attempts to explain and integrate the aspects of human cognition that deal with how information about a social environment is acquired, stored, and retrieved from the memory of individuals. Cognitions have been defined as all processes by which sensory input is transformed, reduced, elaborated, stored, recovered, and used (Neisser, 1967). Expert information processing theory (EIPT) is of particular interest to entrepreneurship scholars because—through the use of a cognitive explanation—it successfully accounts for the ability of entrepreneurs to transform, store, recover, and use information that non-entrepreneurs miss. According to EIPT, experts possess knowledge structures or "scripts" about particular domains that allow them to significantly (two standard deviations) outperform non-experts who do not have and use such structured knowledge (Ericsson, Krampe, and Tesch-Romer, 1993; Glaser, 1984; Leddo and Abelson, 1986; Lord and Maher, 1990; Read, 1987). Expert scripts have been linked to the entrepreneurial process (Mitchell, 1994; Mitchell, 2001).

An expert script is comprised of highly developed, time sequence-ordered knowledge in a specific field (Glaser, 1984; Read, 1987), and as such may be defined as *an action-based knowledge structure*. The efficacy of expert scripts has been demonstrated in a variety of fields such as chess (Chase and Simon, 1972), computer programming (McKeithen, Reitman, Reuter, and Hirtle, 1981), law enforcement (Lurigio and Carroll, 1985), and physics (Chi, Glaser, and Rees, 1982). Expert scripts dramatically improve the information processing capability of an individual (Lord and Maher, 1990), but with the higher potential for thinking errors (Walsh, 1995). It is the negative aspect of cognitive explanations for entrepreneurship that has garnered most of the recent attention in the literature, although the positive aspect is also being developed.

A Cognition-based Definition for Entrepreneurship

Recent entrepreneurship literature has seen an increase in the use of cognition theory. However, as just noted, most of this research has examined the negative consequences suffered by entrepreneurs, when information processing shortcuts are used to deal with an entrepreneurial environment characterized by information overload, high uncertainty or novelty, strong emotions, time pressure, and fatigue. These consequences may be termed thinking errors, and include: counterfactual thinking, affect infusion, self-serving bias, planning fallacy, and self-justification (Baron, 1998); overconfidence or representativeness errors (Busenitz and Barney, 1997); and overconfidence, illusion of control, and misguided belief in the law of small numbers (Simon, Houghton, and Aquino, 2000).

In a recent study, I examined with colleagues some of the positive effects of venturing scripts by investigating common cognitions across international borders that are related to the venture creation decision (Mitchell, Smith, Seawright, and Morse, 2000). This study confirmed a cognitive account of planned decision making that had previously been published in the information processing literature (Leddo and Abelson, 1986), and suggested that the three primary cognition patterns identified therein figure prominently in the explanation of the entrepreneurial decision to create a venture. Evidence of these three cognitive processes (in this case: arrangements, willingness, and ability) has previously been found in the testing of intention-based, planned behavior models of the entrepreneurial event, albeit under different labels (Krueger and Carsrud, 1993; Shapero, 1975; Shapero and Giglierano, 1982). These include: (1) arrangements cognitions, relating to the *feasibility* of the venture, (2) willingness cognitions, relating to the *propensity to act*, and (3) ability cognitions relating to venture *desirability* (Krueger, 1993: 5).

This combined evidence appears to support a more general cognitive model that employs the basic cognitive structure of economic transacting to suggest three primary sets of entrepreneurship enabling cognitions: planning, promise, and competition cognitions. Under the assumptions of the cognitive account, I am able to define entrepreneurship as: *Using transaction cognitions (planning, promise, competition expert scripts) to organize exchange relationships (individual, other persons, the work) that utilize market imperfections (bounded rationality, opportunism, specificity) to create wealth* (Mitchell, 1999).

The foregoing cognition-based definition contributes to overcoming some limitations of the three aforementioned streams in present entrepreneurship theory. For example, the expert script approach has been able to assist with operationalization difficulties in the economic stream. Successful empirical testing of exploratory cognitive constructs that are consistent with economic theories of entrepreneurship (e.g. Bull and Willard, 1993) has been accomplished (Mitchell, 1994; Mitchell, et al., 2000). Further, the cognitive account—using expert information processing theory—has been able to chart the link between individual characteristics and performance, through the identification of two key mediating variables: deliberate practice and cognitive

processes/level of expertise (Charness, Krampe, and Mayer, 1996). Past research in expert theory has, in a variety of domains, clearly related performance to expertise, expertise to deliberate practice, and deliberate practice to personal characteristics (Charness et al., 1996; Ericsson, 1996; Ericsson and Charness, 1994; Ericsson et al., 1993). Thus, with the addition of the constructs: new venture expertise (Mitchell, 1994), and the well-developed notion of deliberate practice, the relationship of personality factors (Charness et al., 1996) to entrepreneurial performance may now be better conceptualized.

Thus, a cognitive account of entrepreneurship provides a possible step toward a more explanatory entrepreneurship theory. More importantly within the context of this article, the cognitive approach also has benefits in charting links between entrepreneurship theory and stakeholder theory, and in a common-ground analysis of the production and distribution of wealth. To this end, I now explore a cognitive account of stakeholder theory.

Stakeholder Theory: A Cognitive Account

What Freeman (1994) called "the principle of who or what really counts," prompted authors such as Mitchell, Agle, and Wood (1997) to offer a theory of stakeholder identification and salience, which suggests that managers' perceptions of three key stakeholder attributes—power, legitimacy, and urgency—affect stakeholder salience: the degree to which managers give priority to competing stakeholder claims (Freeman, 1994; Mitchell, Agle, and Wood, 1997). The idea of perceptions affecting stakeholder salience was not sufficiently explored in Mitchell, et. al. (1997), and was therefore further explained in the study which was undertaken to empirically test the theory (Agle, Mitchell, and Sonnenfeld, 1999: 509). Therein, social cognition theory was suggested ". . . to be useful to stakeholder scholars who wish to account for variability in stakeholder salience, because it provides theory to link individual factors (such as perception) to organizational outcomes (such as managers' prioritization decisions about various stakeholder groups)" (Agle et al., 1999: 508–510).

In the stakeholder theory case, social cognition theory argues that social judgments—such as those relating to stakeholder identification or salience—are cognitively based, because they are judgements about a comprehensive social reality. Once again, the person-in-situation (Fiske and Taylor, 1984: 4–5) notion is seen to apply, as managers—including entrepreneurs—assess the visual fields, the unusual or differential, and/or novelty in their environment to ". . . 'reconcile divergent interests' (Hill and Jones, 1992: 134), accomplish 'interlocking of the behaviors of the various participants that comprise the organization' (Pfeffer and Salancik, 1978: 258), to facilitate 'aspiration-level adjustment' (Cyert and March, 1963: 38)." Stakeholder theory thus depends upon the cognitive account for theoretical reasoning that supports ". . . the expectations proposed by Mitchell and his co-authors (1997)" (Agle et al., 1999: 509)—that together take key steps toward a theory of stakeholder identification and salience.

It might be useful for the reader to note that the Mitchell et. al. (1997) article proposes concepts that lead to *both* a theory of stakeholder identification and a theory of stakeholder salience. As our discussion proceeds to examine the production of wealth and its distribution in society, it will be seen that cognitions relating to the former—stakeholder identification—appear to apply more closely to the production of wealth, while cognitions relating to the latter—stakeholder salience—appear to apply to the discussion of the distribution of wealth.

Entrepreneurs, Stakeholders, and the Production of Wealth

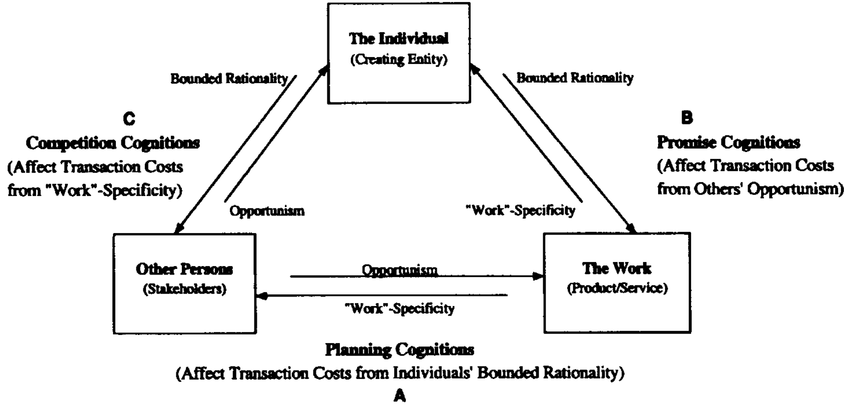
In his Ruffin Lecture, Professor Venkataraman, citing some of his prior work, suggested that entrepreneurship is fundamentally concerned with understanding how, in the absence of current markets for future goods and services, these goods and services manage to come into existence (Venkataraman, 1997). Further, he offered an "entrepreneurial process perspective," deliberately using the term "entrepreneurial process" in contrast to the term "market process" to capture the notion that the opportunity to create wealth arises from imperfectly competitive markets that are at best tending toward equilibrium, but are never really there (Venkataraman, 1999). Professor Venkataraman argued that wealth is created through two processes: (1) weak entrepreneurial processes, which equilibrate value anomalies stakeholder by stakeholder, and (2) strong entrepreneurial processes, which bring about a fundamental change in complete systems of stakeholders.

To establish a foundation for the cognitive perspective on the production of wealth, it is useful to note that the production of wealth, in fact, occurs transaction by transaction, as "works" that are of value to "other persons" are created by "individuals," who then offer them for sale to those other persons, and eventually complete the transaction. Figure 1 (Mitchell, 1999) illustrates how the cognitive definition of the entrepreneurial process provided earlier in this article may be represented when the basic model of a social transaction (Gardner, 1993) is combined with the cognitive implications of transacting (Williamson, 1985: 31; Williamson, 1996: 326–327). As illustrated, a completed transaction requires each of the previously identified sets of cognitions—planning, promise, and competition—to be present (Mitchell, 1999).

The transaction is the basic building block of the economic structure of society. Defining and cumulating transaction bundles in particular ways yields the various levels of economic analysis that we research. For example, a firm may be viewed as a bundle of transactions, an industry as a bundle of firms, an economy as a bundle of industries, and the economic portion of a global society as a bundle of economies. Through the specification of this multiple level set of relationships, entrepreneurs, stakeholders, and the wealth that a society produces may be connected.

FIGURE 1

Cognitions Implied by the Basic Transaction Structure



Based on Gardner (1993); Williamson (1985)

The argument set forth by Professor Venkataraman also suggests the idea that an explanation of the production of wealth in society would invoke a multi-level model that requires definition at each level of analysis, and the articulation of how these levels relate to each other (Rousseau, 1985). In his lecture, Professor Venkataraman called for measures that can capture, simultaneously, economic performance at the individual or firm level as well as social performance at the societal level of analysis (Venkataraman, 1999).

The stakeholder identification portion of Mitchell et. al. (1997) provides theory that suggests how decision makers at the individual level of analysis (managers or entrepreneurs) can distinguish from among competing voices, various groups of stakeholders with distinct behavior profiles (dangerous, dependent, dominant, etc.) at the organization level of analysis. Stakeholder identification cognitions help entrepreneurs to discover—at the firm level of analysis—opportunities to engage in weak entrepreneurial processes at the individual level of analysis (processes which equilibrate value anomalies stakeholder by stakeholder) (Venkataraman, 1999). In this situation, then, a theory of stakeholder identification clearly contributes to our understanding of the multi-level entrepreneurial process cognitions that result in wealth creation.

Entrepreneurs, Stakeholders, and the Distribution of Wealth

Although, as Professor Venkataraman has stated, the field of business ethics is concerned with the distribution of value among the various stakeholders to an enterprise, I continue to be concerned—e.g. (Mitchell, 1993)—that essential ethical principles have not penetrated, and as society presently functions, do not appear likely to penetrate, the corporate or entrepreneurial decision processes that affect the size and destination of distributions of the value created by an enterprise. In this section I wish to explore the link between stakeholders, and both corporate and small business wealth distribution decision processes—again through the cognitive lens.

Distribution of Wealth: Stakeholders and Corporate Decision Processes

As previously noted, a theory of stakeholder salience appears to speak more to the distribution undertaking than to the process of wealth creation. The size and destination of wealth distributions are a key indicator of the application of the principle of who or what really counts (Freeman, 1994). The concept of stakeholder salience has been defined as the degree to which managers give priority to competing stakeholder claims, and attempts to explain the conditions under which managers do consider certain classes of entities to be stakeholders (Mitchell et al., 1997: 853, 854). Stakeholder salience, then, is a descriptive concept with the potential to help us to understand the normative implications of decisions about the distribution of the wealth earned by the corporation.

However, in testing the relationship between stakeholder salience and corporate performance, Agle et al. (1999)—finding that in a sample of over 80 CEOs (who lead a combined economic effort that earns over $500 billion yearly) there was no significant relationship between stakeholder salience and corporate performance—have suggested as follows that the present descriptive theory of stakeholder salience is insufficient to guide wealth distribution processes:

> In observing the mean salience levels of production function stakeholders and the salience-performance link, which suggests considerable CEO discretion, we cannot help but wonder whether broader social norms hold the key to a general model of the firm. As long as society wants high investment returns, job security and higher wages, and lower prices, CEOs are bound to respect these norms (Agle et al., 1999: 521–522).

They therefore call for a change in cognitions: the persistent and persuasive linking of "stakeholders" with "really counting" (in wealth distribution processes) through attention to social norms, and specifically for more attention to normative stakeholder theory.

What would be the changes in wealth distribution that result from a change in the cognitions that influence social norms? Perhaps, with such a change, a

descriptive theory of stakeholder salience might make it possible to chronicle shifts in the power and legitimacy levels of dependent or demanding stakeholders (Mitchell and Agle, 1997), shifts that manifest themselves in the proportion of society that is in the "fourth tier"—at the bottom of the pyramid economically (Hart and Prahalad, 1999). In Professor Venkataraman's terms, the result might be termed a strong entrepreneurial process: which brings about a fundamental change in complete systems of stakeholders (Venkataraman, 1999). Normative stakeholder theory might thus contribute to both the production and the distribution aspect of the entrepreneurial process, as new definitions of "really counting" provide massive new forms of opportunity for the larger corporations (Hart and Prahalad, 1999).

Distribution of Wealth: Stakeholders and Small Business Decision Processes

The problems of wealth distribution within the small business sector are also nontrivial. Research shows that over half the jobs in Western economies (Australia, Canada, the EU, Japan, and the U.S.) are held by people working in small business (Fitzgerald, 1997; Howard, 1997; Mulhern, 1995; SBA, 1997; StatsCan, 1997; Wijewardena, 1995). In my own experience over the past 25 years in extensive work within many small businesses, I have observed that internal small business governance practices are essentially feudal/political rather than being democratic/rational.[1] Accordingly, serious ethical problems in this sector remain unresolved.

Small business stakeholder systems are often much more closed than those in large public corporations. As noted, the internal relationship structure of small business can be compared to a feudal system (Mitchell and O'Neil, 1998). Under a feudal conception of the small business, there are fewer stakeholders who have legitimacy or power, as sole owner-lords exercise largely unchecked and unregulated power (especially in businesses with fewer than 50 employees that are not subject to many employment laws, regulations, and standards). Within sole owner small businesses, few individuals possess rights to legitimacy that are not owner-conferred; and even these individuals are subject to the perception errors and/or whims that turn primarily upon levels of stakeholder access to the owner-lord, which in turn, affects perceived loyalty and the type of rewards (fief) granted. Even minority shareholders in closely held businesses are subject to this same disadvantage.

In my observation, this morality of small business creation is based upon an egoist rights/duties logic that runs something like this:

- The ability to create a business is accomplished only by an elite few (supported by the idea of the "born entrepreneur").
- As members of an economically essential elite—who perform the socially difficult duty of bringing needed goods and services into existence—sole owner business people have a natural right to power within their firms, including the right to determine the distribution of wealth to stakeholders.[2]

However, under the assumptions of transaction cognition entrepreneurship theory, the soundness of the foregoing argument can be called into question. That is, though the egoist argument for the distribution of wealth in small business may be valid; when the argument is examined through the use of cognitive lens of recent entrepreneurship and stakeholder theory, the premises are less likely to be true now than they have been in the past, for at least two reasons.

First, when one accepts that entrepreneurship is a type of expertise, which depends for performance upon the deliberate practice of proper skills and processes (Charness et al., 1996), then one ought to challenge the notion of the "born entrepreneur." Under the cognitive account, entrepreneurship is likely to be—like any other set of skills—capable of accomplishment by most people: specifically those who are willing to practice them. The "right" to distribute small business-gained wealth therefore arises from compliance with a duty: deliberate practice in the processes of wealth creation, and is not reserved for an elite group.

Second, a stakeholder view of entrepreneurial processes (both weak and strong as defined by Professor Venkataraman) suggests that new business success has more to do with support from individual stakeholders (weak processes), and from the stakeholder system (strong processes), than with the actions of a sole owner decision maker (unless of course such actions lead to stakeholder support of the venture). In fact the question might be asked: "If your stakeholders support it, how can a venture fail?" (Lenn, 1993). Then ethically, as the beneficiary of stakeholder support, venture government might be more properly of a constitutional form: subject to a code of stakeholder governance that ensures the distribution of the wealth to many more of those stakeholders who helped to create it. In this manner, a utilitarian morality can replace egoist thought in wealth distribution norms. And also in this manner, the wealth distribution processes that affect the lives of approximately one half of the workers in first world economies, may be able to move from the essential randomness of the feudal/political, to the more systematic processes that are characteristic of the democratic/rational approach.

Detractors might argue that the powerful incentives of sole owner power are necessary to attract entrepreneurial insight. To some extent this appears likely to be true at present. But perhaps only true under an increasingly outmoded egoist-elitist logic.

Indeed, the foregoing discussion raises the following question: Why—in a society where entrepreneurs are trained professionals, with the cognitive skills necessary for expert performance—need there be such powerful incentives? To be sure, at present rates of reported new venture failure—50 to 80 percent depending upon analysis technique (Cooper, Dunkelberg, and Woo, 1988; Kanter, North, Bernstein, and Williamson, 1990: 424; McMullan and Long, 1990; Shapero and Giglierano, 1982)—powerful incentives might appear to be justified. But

this practice may be only an artifact of an inadequate understanding of the social role of entrepreneurs, that is in need of revision. Under the cognitive paradigm, the risk of venturing appears likely to be much lower: where stakeholder support and cognitive acumen leads to lower venture failure. It seems sensible to begin to consider, as new concepts replace outmoded ones in our understanding of entrepreneurship and stakeholder theory, a new morality for the governance of small business.

In many areas of the political arena, feudalism has given way to democracy when the necessary principles have become imbued within the common mind. Interestingly, the possibility that it is time for a change in wealth distribution morality within the small business sector, finds support from thinkers who were at the forefront of the feudalism-democracy transition. Thomas Jefferson, for example, stated:

> I am not an advocate for frequent changes in laws and constitutions. But laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change; with the change of circumstances, institutions must advance also to keep pace with the times. We might as well require a man to wear still the coat which fitted him as a boy, as civilized society to remain ever under the regimen of their barbarous ancestors (Jefferson Memorial, Washington, D.C.).

Stakeholder theory implicitly suggests that the salience of stakeholders is linked to wealth distribution. In an earlier section in this paper we have seen—in the setting of the large public corporation—that salience and performance have not yet been empirically linked (Agle et al., 1999). In this section I have developed the idea that salience and internal governance within small businesses are poorly linked as well. With the same spirit that prompts an appeal to normative stakeholder theory to redress the former, I suggest that we should develop and appeal to a new system of entrepreneurial ethics that corresponds to and is supportive of the recent developments within the cognitive approach to entrepreneurial endeavor, to redress the latter. As I have previously tried to demonstrate, the cognitive approach provides an effective bridge—perhaps even indicating one of the paths toward linkage—between entrepreneurship and stakeholder theory.

Implications

The implications for research and education, of a Ruffin Lecture that proposes connections between entrepreneurship and stakeholder theory, are far-reaching. Philosophers of science maintain that more than one theoretical construction can always be placed upon a given collection of data (Kuhn, 1970: 76). Thus, for new theory in a field to be taken seriously, it must be useful (Popper, 1979: 47–48). The following paragraphs are focused upon an examination of the usefulness of a common-ground cognitively based approach to entrepreneurship and stakeholder theory, as it applies to the production and distribution of wealth in society.

Implications for Research

Both the study of entrepreneurship and the study of stakeholders needs better theory (Donaldson and Preston, 1995; Low and MacMillan, 1988; MacMillan and Katz, 1992; Mitchell and Agle, 1997; Mitchell et al., 1997). Weak theory leaves these fields open at the very least to overdependence upon the unsystematic to provide guidance for scholars, policy-makers, and practicing and aspiring entrepreneurs and managers. And at the limit, weak theory leads to the conceptual marginalization of the fields in question.

Implications for entrepreneurship research. Existing entrepreneurship theory does explain some phenomena (e.g., the behavior of venture capitalists under various conditions [Hall and Hofer, 1993; Manigart, Wright, Robbie, Desbrieres, and DeWale, 1997]); but there are other phenomena that existing theory is yet unable to explain (e.g., as previously noted, when an entrepreneur might appear or engage in entrepreneurship [Bull and Willard, 1993: 183]). Further, the fields from which existing entrepreneurship theory has been drawn each impose domain-based limitations on theory development, which the cognitive approach has the potential to ameliorate.

Some of these theoretical difficulties are resolved (as demonstrated in prior sections of the article) by the capability of a transaction cognition-based theory, rooted in both entrepreneurship and stakeholder research traditions, to explain previous findings in the field at several levels of analysis. Further, using transaction cognition theory, researchers are no longer constrained to view the economic, psychological, and strategic performance views as competing explanations; but rather they are now able to view them as elements of an overall transaction cognition "composition" explanation (Rousseau, 1985) in which stakeholders figure prominently in cases of both weak and strong equilibration (Venkataraman, 1999).

Implications for stakeholder research. Professor Venkataraman has asserted that ". . . recasting the central purpose of the firm (from) serving the interests of stockholders to one where it serves the stakeholders is an innovation in organizational form of Schumpeterian proportions" (Venkataraman, 1999). The increasing presence of stakeholder theory in the literature and at various conferences (e.g., The Academy of Management, IABS [The International Association for Business and Society], and the Toronto Conference series, TO1–TO4) is a possible indication of momentum in this direction. It appears to me that a growing body of scholars is becoming aware of, and is perhaps even hoping for, a stakeholder theory of the firm to be forthcoming. However, the empirical record at present suggests that as long as society wants high investment returns, job security and higher wages, and lower prices, decision-makers

are bound to respect the values and norms that enfranchise some stakeholders, while ignoring others (Agle et al., 1999).

New norms are needed. Where will they come from?

Through the integration of entrepreneurship and stakeholder theory that was proposed by Professor Venkataraman and has been elaborated through the utilization of the transaction cognition lens, it is possible to conceptualize the formation of firms as a stakeholder-centered phenomenon. According to Professor Venkataraman, stakeholders help in weak equilibration processes through their assistance with the amelioration of information anomalies—helping in the process of entrepreneurial discovery. Stakeholders also help in strong equilibration processes through their effects on the very structure of businesses and industries: they—in effect—are decisive in the ultimate survival of firms, industries, etc.

Thus, a utilitarian argument can be made—using the same logic as the argument for the virtuous circle (Waddock and Graves, 1997)—that more attention to stakeholders enhances the greater good. However, the empirical record is relatively silent on this point at present. But, with refinements in theory and in the methods that they suggest, it certainly seems possible to foresee the emergence of results that utilize the entrepreneurship/stakeholder theory interaction to move stakeholder-based theories of the firm forward.

Implications for Education

Business schools have been criticized for insufficient attention to the education of entrepreneurs (Porter and McKibbin, 1988: 66). However, there is little research that differentiates better from worse ways of teaching entrepreneurial skills (Katz, 1991) and little integration of the contributing disciplines to a business school education (Porter, 1997). The stakeholder-sensitive transaction cognition model of entrepreneurship suggests solutions to each of these problems.

First, for reasons previously identified, transaction cognition theory (TCT) suggests that the substance of an entrepreneurship education should be the development of stakeholder-focused planning, promise and competition cognitive scripts in individuals. Second, TCT suggests that these cognitive scripts—expertise in the field of entrepreneurship—can be developed using the expertise enhancement methods identified in the elaboration of expert information processing theory as it applies to the acquisition of expert performance within a given domain (Ericsson and Charness, 1994; Glaser, 1984; Mitchell and Chesteen, 1995). Third, TCT suggests a likely means for integration across disciplines.[3] Thus, stakeholder-centered transaction cognition entrepreneurship theory provides a workable and practical foundation for effective entrepreneurship education.

An explanation of the high degree of success of many of the "pracademic" models of entrepreneurship education (e.g., the Swinburne Model, McMullan, 1998) can trace their success to the intuitive application of the foregoing stakeholder sensitive transaction cognition principles to enhance the expert

information processing of students. The creation of planning (business plan-based, e.g. [Stevenson, Roberts, and Grousbeck, 1994]), promise (stakeholder-, trust-based, e.g. [Barney and Hansen, 1994; Mitchell and Agle, 1997]), and competition (entrepreneurial strategy-based, e.g. [Rumelt, 1987]) courses, which combine with experiential (practice, e.g., [Ericsson et al., 1993]) and conceptual (script interrogation, instantiation, and falsification, e.g. [Glaser, 1984]) courses taught in an integrated semester-length module along with as much real-world contact with practicing entrepreneurs as possible, is therefore suggested.[4]

To me, it appears likely that if the use of the transaction cognition model of stakeholder-based entrepreneurship as the basis for entrepreneurship education creates increases in the success of individual transactions (whether in jobs or ventures) and of transaction sets (the ventures themselves), then the productivity of an economy must unavoidably be impacted. A populace that is better educated in stakeholder-centered solutions to transacting problems that have heretofore resulted in transaction failure, could have a material impact upon the wealth creation capacity of an economy. The result would be a high performance economy (Williamson, 1996: 332) where the friction of transaction costs that impedes transactions would be minimized.

Conclusion

In this article, I have further explored the connections between entrepreneurship and stakeholder theory that were highlighted by Professor Venkataraman in his distinguished Ruffin Lecture. Using a cognitive theory lens, I have related both theories to the production and the distribution of wealth in society through the application of a transaction cognition theory that explicitly includes stakeholders. This argument suggests a type of expert transacting script that can integrate entrepreneurship and stakeholder theories using expert information processing theory (EIPT).

EIPT suggests that expertise consists of the possession and utilization of domain-based scripts that, in turn, support outstanding performance. At the point of intersection between entrepreneurship and stakeholder theory, the transaction cognition approach leads us to suppose that a previously unidentified "expert script" might be at work, facilitating both the weak and the strong equilibrating processes of entrepreneurship that depend upon stakeholders for their effectiveness.

In his concluding remarks Professor Venkataraman suggested that entrepreneurs are at the forefront in the empirical demonstration of the validity of the stakeholder idea. Hopefully the theoretical framework offered by transaction cognition theory will be supportive of this thesis.

Notes

1. This is not to imply that governance processes in large public companies are non-political or are perfectly rational. Rather it is to suggest that the level of exercise of arbitrary political authority within small business is much higher, and is subject to less scrutiny than it is in publicly held organizations.

2. This morality sounds oddly similar to prior justifications of the divine right of kings.

3. For example, a focus group comprised of MBA students selected the following courses taught in a well-recognized MBA program as *primarily* helping to develop the three cognitive models as follows:

- Planning: financial and management accounting, managerial economics, applied research and consulting methods, organization design, international business, finance, operations management, cross-national management.
- Promise: law, stakeholder management, human resource management, marketing, statistics.
- Competition: strategy, information technology.

4. At this point the University of Victoria undergraduate program, Victoria, BC, Canada, is the only one known to have been explicitly based upon this suggested model. This 16-month program utilizes two 4-month academic semesters at the beginning and end of the program, coupled with 2 back-to-back work-term semesters (8 months) to provide experience in the middle of the program. Since its implementation began in May, 1997, it is too early to fully assess the impact of this model of entrepreneurship education upon the creation of expert cognitive scripts in individuals, and the subsequent impact upon rates of venturing or venture success. It has, however, been highly rated by student participants, and has won the Entrepreneurship Division (AOM) Innovation award, and the USASBE Model Undergraduate Program award.

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