

STAKEHOLDERS OF THE WORLD UNITE: ASSESSING PROGRESS ON THE PATH TOWARD A STAKEHOLDER THEORY OF THE FIRM

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Introduction

Is there a connection between anti-globalization protests and our failure to develop a stakeholder theory of the firm? Or, put another way, what if we were to conceptualize the anti-globalization movement as the efforts of “suffragettes and suffragers” for the emancipation of those stakeholders who are the disenfranchised or unrecognized citizens of the corporation? What kind of theory of the firm would be consonant with such an assertion? And, what analytical path would we follow to uncover the outlines of such a theory? From this analysis, we might bring into focus the next conceptual milestones needed along our road to developing a functional and functioning stakeholder theory of the firm. In this discussion I shall explore these analytical steps.

Step 1: Motive Purpose

The first step, it seems to me, would be to begin with our understanding of what I shall call the “motive purpose” of the corporation as we now understand it. This is because the theory of the corporation is bounded by its motive purpose. Thus, we must first ask: What is the boundary of the corporation implied in the profit motive?

The profit motive bounds a corporation using second-order constraints. What do I mean by this statement? (Perhaps simplistically but no less accurately) I mean, that the only citizens of the corporation who are enfranchised under the profit motive purpose are those whose role relates to the increase of revenues, or the decrease of expenses, to create a “net” profit. I introduce the term “second-order constraints” to highlight an important distinction: There is a big difference between the value that is created by stakeholders, and the revenues that are actually “booked” by some subset of these stakeholders. There is also a big difference between the total costs that are incurred—wrought upon stakeholders—and the expenses that are “booked,” and for which the

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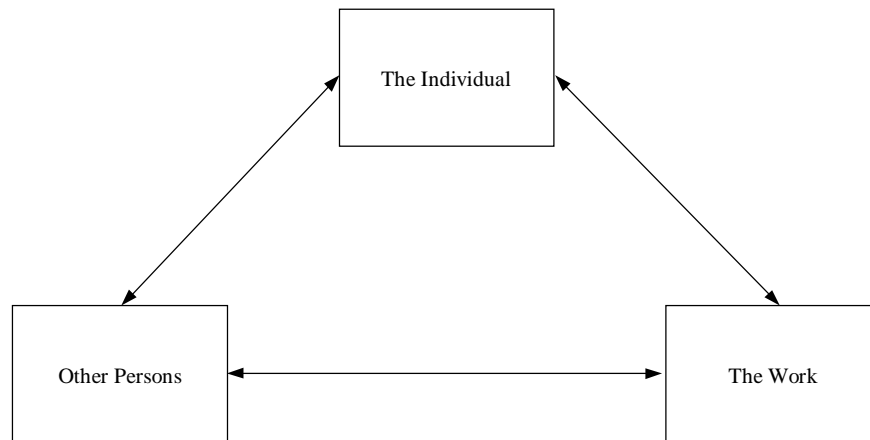
corporation is accountable to some smaller subset of these stakeholders. The full value, and the total costs, I consider to be first order concepts.

Thus it seems to me that we must identify an alternative motive purpose for the corporation if we are to justify a theory of the firm that bounds our corporations in the way that is an evident necessity as the waves of globalization (Friedman, 2000) sweep the planet (according, at least, to those vocal representatives of the globally disenfranchised, whether it be a threatened environment, or the threat of abuse to our fellow human beings that arises due to the too-narrow definition of socioeconomic citizenship.)

So, what might this alternative motive purpose be? I suggest that if corporations are to become accountable for a greater proportion of the value that they create, and for the wider scope of costs that they incur, that the motive purpose must be “first order” v. “second order”—that is, to satisfy a motive purpose that is more foundational in nature. And the literature of new institutional economics suggests that first order economizing can generate 10 times the benefits of second order economizing (Williamson, 1991).

Where would we look to find a first-order motive purpose? A new approach to such analysis at the society level is offered by transaction cognition theory (Mitchell, 2001; Mitchell & Morse, 2002). In brief, transaction cognition theory derives, from the fundamental structure of the transaction (Figure 1), the three essential cognitive scripts (Figure 2) that are essential for transactions as socioeconomic relationships to succeed: planning, promise, and competition cognitions. Each script adds a necessary element. Each script defines a first-order motive purpose, and in doing so reveals a likely motive purpose for a stakeholder theory of the firm, which I shall call the “promise motive.”

Figure 1: The Elements of a Basic Transaction



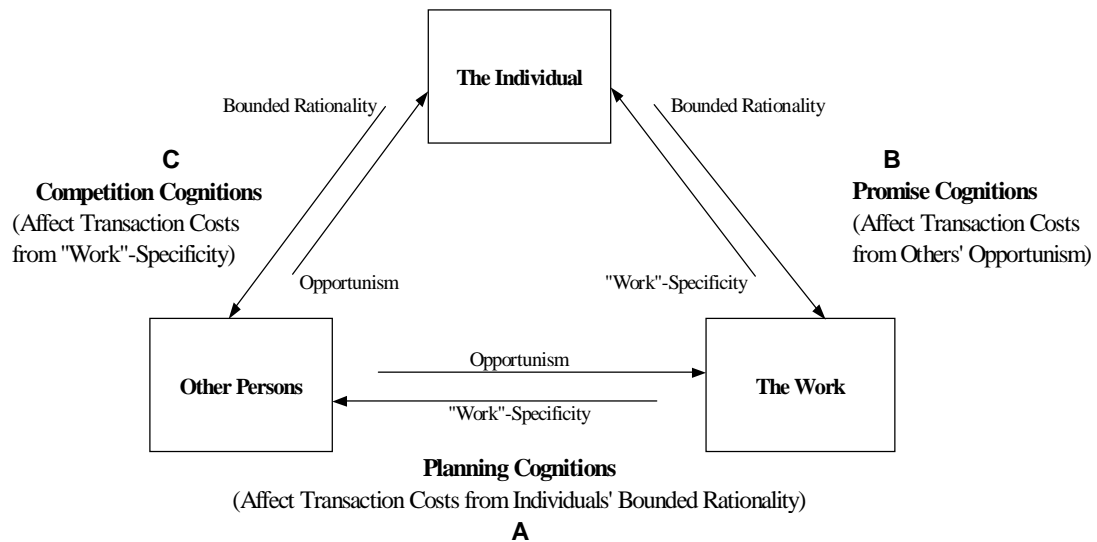
Based on Gardner (1993)

The promise motive bounds a set of socioeconomic relationships by first order constraints (value and cost) instead of by second order constraints (revenue and expense), and these constraints capture much more of the socioeconomic action, thus creating a new boundary of accountability.

What is the promise motive?

Promise cognitions are defined to be (Mitchell, 2001; Mitchell, 2002; Mitchell & Morse, 2002): the mental models that help in promoting trustworthiness in economic relationships with, for example, stakeholders (Agle, Mitchell & Sonnenfeld, 1999; Mitchell, Agle & Wood, 1997). By extension, the promise motive could then be defined to be the needs or desires to promote trustworthiness in economic relationships that cause persons to act to fulfill such needs or desires. The operant term, trustworthiness, is taken to mean dependability, or worthiness of confidence.

Figure 2: The Transaction Cognition Theory Model



Based on Gardner (1993); Williamson (1985)

If we then simply ask what might be necessary to satisfy the promise motive for all the creators of value and the bearers of costs, we very quickly arrive at the conclusion that each such stakeholder must be convinced that the corporation will both dependably create, and dependably distribute (Mitchell, 2002) value and burdens (which means—explicitly—that the present property rights of second order “profit motive” stakeholders are not threatened, but that, by extension of property rights incentives (de Soto, 2000) to the remaining set of first-order stakeholders, that additional capital is created from new value or from the conservation of presently wasted costs).

At the root of protest, we might therefore suspect to find violations of the promise motive that occur in service of the profit motive. At the root of protest, we can see a conflict over the normative basis (Donaldson & Dunfee, 1999; Donaldson & Preston, 1995) of the corporation. By our clarifying the role of the motive purpose, and by our advancing an alternative motive purpose, we can thus see more clearly the connection between anti-globalization protests and our failure to develop a stakeholder theory of the firm. The second step would then be to examine how the replacement of the corporation’s “profit” motive purpose with a “promise” motive purpose identifies the milestones toward an efficacious stakeholder theory of the firm.

Step 2: Promise Motive Milestones

The promise motive suggests a new view of socioeconomic citizenship, or stakeholding. If we were to accept satisfaction of the promise motive as a primary criterion for evaluating the performance of the corporation, we would necessarily accept that the legal boundaries of the corporation (the scope of rights and duties) must change; otherwise there could be no basis for first-order v. second-order accountability. For without such a refocusing, the idea of globalization is the idea of a polity without emancipation. It is the idea of economic slavery that, I believe, creates the rancor upon which anti-globalization protest feeds.

Friedman (2000) suggests that this present era of globalization is not the first, but the second such era. He describes how in the first era (say the late 1800's), the globalization system was preempted by the "hammer blows" of two world wars and the rise of communism, and had substituted for it a "cold war system." It seems sensible to me to suggest that without a workable first order motive for the trustworthy organization in our socioeconomic world, it is no wonder that we went to war, and inevitably contended with armament-backed command economic socialism as a political and philosophical alternative. However, with the reassertion of markets as the dominant form of socioeconomic organization (Globalization II), we are now faced with unrest that is similar in its intensity, and which may also be quite similar in its source to that associated with Globalization I.

The present situation thus begs the question: What now? If not a command economy, and if not unrestricted globalization, then what? In answer, it would seem to be advisable to attempt to set out milestones along a path toward a promise motive-based stakeholder theory of the corporation that might serve as a means to avert Cold War II as an inevitability.

For us to have a stakeholder theory of the firm we therefore need to be able to reliably identify stakeholders and to assess the salience of their claims. In the years leading up to MAW '97 the focus of several Toronto Conferences on stakeholder theory, and the focus of a great deal of scholarly attention was to further this aim (Brenner & Cochran, 1991; Clarkson, 1993; Clarkson, 1995; Donaldson & Preston, 1995; Jones, 1995; Phillips, 1997; Wood, 1991; and others). Other presenters on this panel have chronicled the work since then, which has subjected this preliminary framework to effective scrutiny.

But while effective stakeholder identification and salience assessment is necessary, it is not in my view, sufficient. This is because citizenship demands more. For example, just because we can identify a salient stakeholder, does not mean that such a stakeholder is necessarily enfranchised. And—as we have learned so well regarding the franchise—possession of the franchise does not necessarily mean its full enjoyment (Fogel, 1989; Fogel & Engerman, 1994).

Using our imagination, we might conceive of the milestones beyond stakeholder identification and salience to include one or more of the following:

- The revision of international law to recognize socioeconomic polities that are founded upon the promise motive;

- The articulation of an agreed upon format for the creation of the constitutional provisions (akin to articles of incorporation) for governing such polities;
- The development of a code of stakeholder polity conduct that such stakeholder polities agree to be bound by;
- The establishment of a regulatory framework that can provide assurance of a level playing field (Mitchell, 2001) for stakeholder polities, which includes at a minimum the authorization, monitoring, and enforcement of the provisions of the code of stakeholder promise, but might also include the management of “structural competition” (Thompson, 1989) such that global monopoly power might be discouraged, and where necessary ameliorated; and
- A program of global economic literacy (Mitchell, 2001), which will enable full exercise of the rights and duties of stakeholder-citizens within stakeholder polities.

Stakeholders of the World Unite?

Stakeholders of the world unite! Dare these words be uttered? And if uttered, in what direction ought they to point?

- Certainly not to justify the formation of another version of socialist elites that use command economic principles as a rationalization for the aggregation of political power;
- Certainly not to serve the designs of protectionists, whose opportunistic agenda leads to short-term gains and local optima, while just as surely disenfranchising the other global stakeholder-citizens they purport to serve;
- And certainly not to enact the dialectic that founds a new cold-war system.

But rather, to establish a system of corporate governance that:

- Is sensitive to the first-order constraints that we have been discussing;
- Enfranchises a greater proportion of those who really create the value, and upon whom costs are imposed; and most especially, that
- Defines a clear boundary for a new regulatory framework based upon a global stakeholder bill of rights.

Let us therefore work to channel the protest energy seen at the Seattle 1999WTO, or the Genoa 2001 or the Kananaskis/Calgary 2002 G-8 “tea parties” toward increasing the socioeconomic well-being of a majority of first-order stakeholders v. a majority of second-order stakeholders (who likely are a minority of first-order stakeholders). With a first-order stakeholder-based stakeholder theory of the firm, we can chart a path toward the emancipation of those stakeholders who are now the disenfranchised or unrecognized citizens of the corporation. Up with the promise motive! Stakeholders of the world, unite!

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