

COMMENT ON EDWARD FREEMAN'S PAPER "STAKEHODER THEORY AS A BASIS FOR CAPITALISM"

1. This paper restates basic concepts of stakeholder theory as a fundamental theory of capitalistic entrepreneurship and its relation to some of the main economics theories of the firm
 - stakeholder theory is not identified with a particular position in the debate on economic institutions or corp. governance but as a very basic view about the "nature" of entrepreneurial activity and the entrepreneur role in market society.
 - moreover it is seen as at the very basis of every form and dimension of entrepreneurial activity, whatever the institutional form, i.e. as part of the essence of "capitalism"

- Its is generated by two assumption:
 - The integration thesis : we cannot talk about business without talking about ethics;
 - The responsibility thesis: most people accept responsibility for the consequence of their economic actions (i.e. they are not “opportunists”)

- Some of the main economist’s view are seen as kinds of stakeholder theory, at least as **instrumental** stakeholders theories
 - Friedman
 - Jensen: Enlightened Value maximisation implies to manage stakeholder relationship at least indirectly
 - Williamson: contractual safeguard guaranteed by exogenous institutions makes possible to disregard endogenous safeguard , directly based on “caring” for stakeholder at the Board management level
 - Without such presumption TCE should be more directly concerned with **STAKEHOLDER** management or governance

- **The general idea is that as far as these theory are concerned to value creation and trade they must be at least indirectly stakeholder theories**
 - they make some assumption about how market , or contract work and this allow to disregard direct and explicit “stakeholder care”
 - **HOWEVER** the nature of entrepreneurship as value creation, is interlocked with STKH relationships,
 - hence theses theories are just different version of STKH in which some mechanisms allow the entrepreneur reducing his direct focussing on STKH due to the operating of these mechanisms
- STKH theory is seen as a part of the description of entrepreneurship and “value creation and trade”; you cannot think the one without the other (examples of large and small business)
- It emphasises the personal role of the entrepreneur as main responsible for value creation

- Entrepreneurship is seen as joint activity addressed to substantially common objectives even if conflict are not ignored

Its very nature is “to create as much value as possible for the stakeholders”

- **From the integration thesis follows the need of an Ethical theory of entrepreneurship**
 - Basic goal: “to explain how value creation can be sustainable over time”
 - This implies three ethical principle:
 - Stakeholder cooperation (joint interests and agreements)
 - Stakeholder responsibility : accepting responsibility for consequences
 - Complexity of human motivations

COMMENTS

1. I'm not so optimistic about the “general consensus”, even though simply implicit, with most “main stream” economic theory

- Jensen: long-run TVM can never join stakeholder value, even indirectly
 - i. Under incomplete contract without explicit commitments on stakeholder fiduciary duties and values, reputation and long run self interest cannot depend on anything of implicit and indirect (no contract etc.)
 - Hence the indirect strategy will not converge to stkh
 - ii. There are too many long run equilibria, in which the firm may follow shareholders interest, also abusing stakeholders

- **Transaction cost economics:** it is true that descriptively it is a STKH theory **but not normatively**

(example Hansmann theory of ownership of enterprise)

- iii. The criterion is wealth maximisation or aggregate utility
- iv. This carries to accept second best solution which includes substantial abuse of stakeholder interest (each allocation of property right does that)
- v. The point is that there is not the idea of an agreement amongst the stkh at the basis of an economic institution,
 - the theory is “utilitarian” it looks to the aggregate of wealth (o costs)
 - Moreover it is not the agreement but market selection what decides over institutional forms
- vi. But evolution can carry to suboptimal rest point

2. On the contrary I'm much more optimistic about the convergence of STKh with much of the newest economic theory

- Don't give up the idea of a well defined objective function: i.e, NBS (Aoki, Binmore, Sacconi Brock)
- Clear answer to the problem of shareholder value VS stakeholder value:
The second implies the first but not the contrary
 - Constrained maximisation: you can maximise under the condition that also other stks maximize (Gauthier) , under the hypothesis that the enterprise is a coop venture,
 - hence stakeholder value is compatible with constrained shareholder value
 - On the contrary individual maximisation does not implies that the common objective is reached (not even under the hypothesis of repeated plays,)

- Game theoretical explanation of “corporate culture” or –better- ETHICS is such that
 - Create commitments on which reputation may depend (commitment have a non self-interested content) (create commitment for reputation equilibria)
 - Favour common knowledge and equilibrium selection of the mutually advantageous equilibrium

- Behavioural theories accounts for motivational complexity,

3. The main problem however is about the ethics of STKH theory

“what is the value in value creation? “

- Value creation and trade is the value “per se” and stkh relationship are the tools or value is in the stakeholders interests or rights. and value creation is a means for satisfying them?

- Business as cooperative venture may accommodate the problem, for each STKH is a means for the other in cooperation

- But at the end value lies in “autonomy” or “choice” on the parts of the stkh;
 - society , business, firm are **tools** for the cooperating parties

- **A possible analogy with Rawls:**
 - “Value and trade” as a primary good
 - They are functional to “plans of life” that we may have, but do not know (ethics is **neutral** with respect to the specific conceptions of good)
 - ethical principles concern the possibility of rational acceptance of institutions that make possible production and distribution of primary goods (value and trade)

- principles are conditions of rational agreement (the ethical value is in the respect of equal rationality and autonomy) which allow the cooperative venture to be started

- In this case entrepreneurship and value creation are human practice and institution that need to be justified , not value per se

- **Stakeholders are the origin of value not the entrepreneur: As in contractarianism the authority must be authorised by authors**

- This would stress the importance of the **difference amongst stakeholders** and their **possible distributive (mixed motive) conflicts**: conflict and cooperation should be equally stressed (not enough in Freeman paper)

- It follows is that we need some **principles of fair and efficient balancing** amongst the stakeholder
 - Coop is not enough: given that the enterprise is a coop venture, at which condition would we agree to enter such a venture?
 - Please don't give up serious normative problem on the design of the firm as an institution
 - Resting upon "local norms" (Donaldson) don't seem enough
 - What we need is a theory of stakeholder social contract of the firm, as medium level institution
 - Hence stkh theory should be a theory of the enterprise as medium level institution, not of the entrepreneur or manager as an **individual** actor
 - This allows also for non capitalistic arrangement of the institutions (i.e coop or non profits)

▪ Why “only” capitalism?

- I guess that Freeman (as a pragmatist) may intend “value creation a trade” as the **value per se**
- It is a practice that in Western Society we understand as “capitalistic”
- The basis of value is the **meaning** that a community ascribes to its practice
- US business community would not understand enterprises as not capitalistic (but there are many non-profits also in the US)
- Stakeholder relationships are part of a description of the practice
- You may consider **them as a tool** of the “natural intrinsic” o culturally characterised END of the practice (“value creation”)
- BUT I would disagree with this communitarian understanding of STKH and perhaps also Freeman do (stakeholders here are mere **means**)