

# Stakeholder Co-operation

Shann Turnbull

## Abstract

Some of the most successful businesses in the world involve employees, customers and suppliers in their control. This paper describes why this is so and how stakeholder governance could be introduced into English speaking countries. The competitive advantages of establishing co-operative relationships with stakeholders is illustrated by analysing a Japanese keiretsu and the stakeholder co-operatives found around the Spanish town of Mondragón. These are shown to share common features in their information and control architecture which are also shared by all living things which depend upon obtaining feedback information from their environment to exist. Elements of information theory, which is used to design self-regulating devices, are introduced to indicate how firms could be designed to mimic life forms to become self-regulating. Beside introducing competitive advantages, this would minimise both the internal and external costs of regulation. The paper recommends that governments provide leadership in introducing competitive self-regulation using the strategy proposed by the US Vice President. The result would be to create a "Stakeholder Economy".

There is an abundance of compelling evidence that co-operative relationships with strategic stakeholders provide firms with competitive advantages. The evidence is particularly persuasive as much of it arises from the for-profit sector. However, the participation of stakeholders in the governance of firms seems to be largely ignored, even by those who profess co-operative values. There are a number of possible reasons for this neglect. There is the cultural hegemony of competitive values which inhibits those with co-operative values from promoting participation outside a business in case they are seen to have questionable business acumen; there are industry and legal concerns in establishing formal relationships with customers and suppliers and there is lack of experience and knowledge of how to structure value adding relationships with external

stakeholders. The objective of this paper is to make a contribution towards countering these reasons.

## Who are stakeholders?

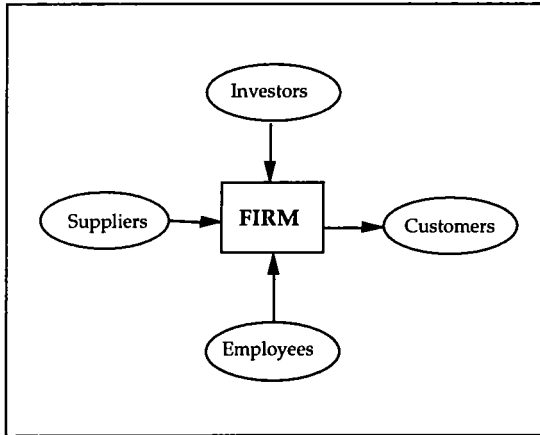
First, let us consider who are stakeholders. An accepted definition of a stakeholder is still evolving in the academic literature. A leading contributor is Freeman<sup>1</sup> who, quoting the Stanford Research Institute (SRI) describes "those groups without whose support the organisation would cease to exist". Freeman had his own definition which is widely used: "A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation's objective". Clarkson<sup>2</sup> considered this definition too broad and defined stakeholders as "persons or groups who either voluntarily or involuntarily became exposed to risk from the activities of a firm". However, this definition does not make it clear if a person would be a stakeholder if they were not at risk but could obtain a benefit. This uncertainty is removed by the definition of Donaldson and Preston<sup>3</sup>, who state: "Stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions". Preston<sup>4</sup> qualifies this definition by stating "persons and groups who *gain* only when the organisation as a whole *loses* are not stakeholders, although they may well have an interest - albeit a negative one - in its activities".

The academic nuances in defining a stakeholder need not concern those interested in the practical matter of how stakeholders might make a contribution to sustain a business and add value. From this perspective it is clear that it makes sound business sense to at least concern ourselves with "those groups without whose support the organisation would cease to exist". As the very existence of a firm is dependent upon such groups I will define them as *strategic stakeholders*. As employees, customers and suppliers are essential for a modern firm to exist, they meet the test of being strategic stakeholders. Suppliers would include members of the host community. Investors without any other role may not be essential, as occurs with labour owned firms. Even when investors are required, they may not remain essential for an unlimited time. Firms become self-financing and may even buy-out their original investors as occurs with

**FIGURE 1**

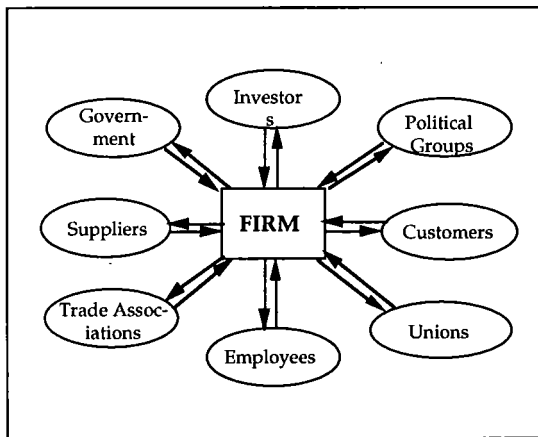
**Investor view of a firm (Adam Smith)**

(Marxist and financial economists reverse the customers and investors arrows!)



**FIGURE 2**

**Stakeholder view of a firm**



management buy-outs and 100% employee owned companies. The property rights of investors in firms established as a joint venture commonly expire after a specified time, especially for foreign investors in some countries.<sup>5</sup> Investors may not, *per se*, always meet the test of being essential for the firm's existence.

### **The stakeholder view of a firm**

In defining "Stakeholder Theory" Clarkson states:

"The firm" is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services.<sup>6</sup>

Figures 1 and 2 are used by Preston<sup>7</sup> to illustrate the difference between an investor view of a firm and a stakeholder view. The arrows are used to indicate the direction of contributions made by the various stakeholders from the various viewpoints. As noted by Kay,<sup>8</sup> the legal obligation of directors is to investors rather than to customers, ie it follows the viewpoint of Marxists and financial economists. The stakeholder view recognises that firms do not exist in isolation. Both their existence and their operating discretions are subject to other agents in society. Society creates the laws which allow firms to exist and operate. These are becoming increasingly complex and burdensome. Later I will outline how these burdens can be reduced by adopting the lessons of nature in managing complexity.

In the last century, European and US companies were chartered for a specified time as were firms established under the Queensland Mercantile Act of 1867.<sup>9</sup> In the US, charters could be cancelled earlier for "fraud, negligence, misconduct", "abuse or misuse of its power, privileges or franchises", or "acts contrary to public policy".<sup>10</sup> Charters did not provide investors with limited liability at that time. The purpose of a charter was to allow the enterprise to exist as a business entity or in the words of the RSA,<sup>11</sup> a "licence to operate".

Delaware voters passed a constitutional amendment in 1831 limiting all corporate charters to twenty years. Other states, including Louisiana and Michigan, passed constitutional

amendments to place precise time limits on corporate charters. President Andrew Jackson enjoyed wide popular support when he vetoed a law extending the charter of the Second Bank of the United States in 1832. That same year, Pennsylvania revoked the charters of ten banks.

During the 1840s, citizens in New York, Delaware, Michigan and Florida required a two-thirds vote of their state legislatures to create, continue, alter or renew charters. The New York legislature in 1849 instructed the attorney general to annul any charter whose applicants had concealed material facts, and so sue to revoke a charter on behalf of the people whenever he believed necessary.<sup>12</sup>

During the last century, accountability to a broad constituency of stakeholders transcended accountability to investors. This state of affairs was reinforced by a broadly based grass roots political mandate to amend state constitutions. The possibility of the "licence to operate" being cancelled provided a very strong incentive for investors to control managers so that the business operated in a socially responsible manner. This has profound significance for what is now called "corporate governance". Last century, unfair trading did not result in a fine as occurs today but in a company losing its right to exist! I will develop this point later. There are also important lessons in the way firms have persuaded legislators during the last century to reduce their social accountability.<sup>13</sup>

A devastating description of how these processes are still proceeding in the US was presented earlier in 1996 by Monks.<sup>14</sup> The process by which US directors have reduced the ability for even their shareholders to vote them out of office or elect individuals whom the directors do not favour, is described by Gordon.<sup>15</sup> This has allowed many US Chief Executive Officers (CEOs) to control the composition of their board. This power has enabled them to persuade their boards to pay them millions of dollars in annual remuneration. Fukao reports: "that US CEOs receive about two to three and half times as much money as Japanese Managers".<sup>16</sup>

### **Competitive advantages from co-operative stakeholder relationships**

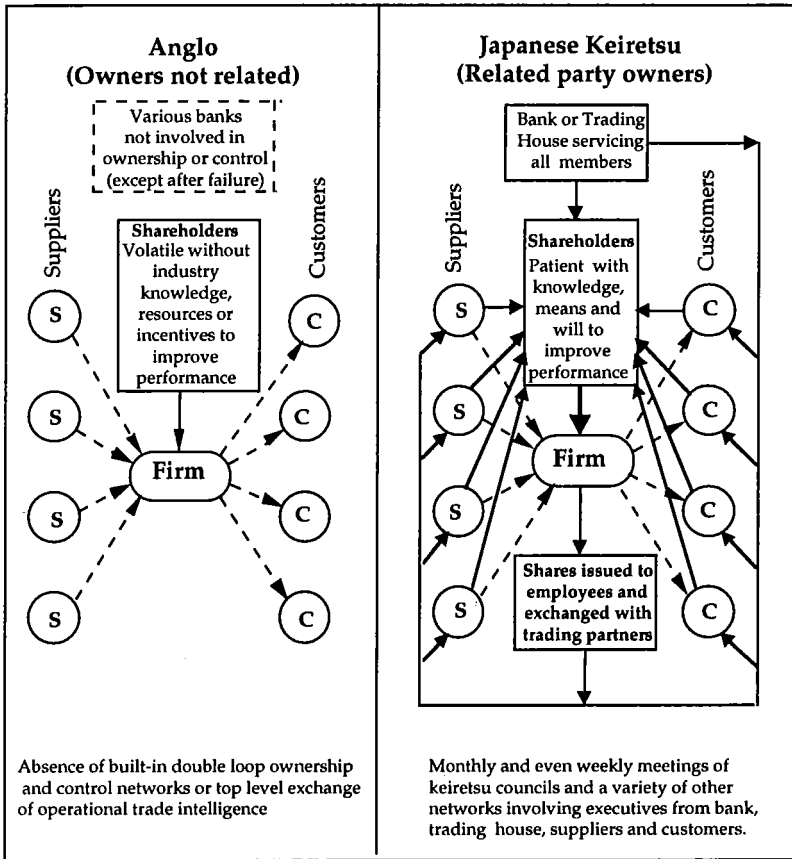
Let me illustrate with practical examples the nature of the

competitive advantages which can be obtained from the establishment of stakeholder relationships. The first example involves firms in a Japanese keiretsu and the second example the stakeholder co-operatives found around the town of Mondragón in the Basque region of Northern Spain.

Analytica reports that: "It has become standard practice among Japanese companies to exchange small amounts of stock with lenders and business partners as a gesture of goodwill, sincerity and commitment".<sup>17</sup> These shares are rarely sold, creating a stable block of shareholders who typically own 60 to 80 per cent of all shares. Only 20-30 per cent of all shares tend to be in general circulation. According to the International Labour Office, "Over 60% of companies have ESOPs" with profit sharing bonuses being equivalent to around 25% of employee pay, which makes Japan "the country where the financial participation process is the most advanced".<sup>18</sup> As a result, a controlling interest in many major Japanese companies is held by strategic stakeholders. The arrangement is illustrated in Figure 3 for a company which is a member of a *Keiretsu*. A keiretsu is a group of companies with related trading interests through being suppliers or customers of each other and a lead member who may be a bank or trading house. The CEOs of each strategic stakeholder meet monthly, and sometimes even weekly, as a keiretsu council. There are a number of very persuasive competitive advantages provided to a business through establishing close co-operative relationships in this manner.

The first advantage is that the controlling shareholders obtain expert inside information, *independent of management*, on the performance of management. Compare this situation with "Anglo" firms with a unitary board as found in England, US, Australia and other English speaking countries. Even if the executive directors are themselves experts, they may not obtain information which reflects the viewpoints of their customers, suppliers and workers. Even if executives did obtain such information from their strategic stakeholders, the outside directors would need to obtain it independently of management to allow them to carry out their legal obligations to diligently monitor and evaluate management in either private or public sector corporations.<sup>19</sup> However, when a director is truly independent she/he cannot have access to inside information to evaluate management. Nor is he/she likely to have specialised

**FIGURE 3.**  
**Comparison between Anglo and Japanese**  
**dispersed ownership and control architecture**



S = Supplier  
 C = Customer

Ownership ———→  
 Trade activity - - - ->

Source: Analytica 1992

firm or industry specific information to add value. In referring to independent outside directors, Hawley and Williams state that:

Directors inevitably can not know as much about the firm as management. Most importantly, directors do not devote their entire professional efforts to a single company and therefore are not enmeshed in the day-to-day information flow of the company. This is compounded by management's control of the information that does reach the board. The result can be a board knowing too little, too late and, even if it is willing and able to act to confront a growing problem or crisis, it is often unable to do so.<sup>20</sup>

The question of directors being "willing and able to act" is the second advantage of involving strategic stakeholders. Even if independent directors on a unitary board have the knowledge to act, they may not have the will and power to act because they are loyal or obligated to management and/or hold their board position at the grace and favour of management.<sup>21</sup> Compare this situation with members of a keiretsu council where each member is a CEO with his own independent constituency with expert inside knowledge and a long term interest in being associated with a value adding trading relationship. While each CEO may not hold sufficient votes to take any decisive action alone, his colleagues do have the numbers to act. And act decisively and constructively they do. Kester describes how Akai, a consumer electronics firm, was re-organised by its customers, suppliers and bankers when it began to fail.<sup>22</sup> Identical mechanisms exist for the stakeholder co-operatives in Mondragón.

A third problem with a unitary board without oversight by strategic stakeholders is that management may not be adequately informed. This problem is inherent in all hierarchies be they made up of private sector executives or officials in government bureaus. For individuals who do not act as a team but establish coalitions of personal interests, Downs describes four biases:

1. Each official tends to distort the information he passes upward to his superiors in the hierarchy. Specifically, all types of officials tend to exaggerate data that reflect favourably on

themselves and to minimize those that reveal their own shortcomings.

2. Each official tends to exhibit biased attitudes towards certain of the specific policies and alternative actions that his position normally requires him to deal with. These attitudes will result from his biases in favour of policies that advance his own interests and the programs he advocates and against those that injure or simply fail to advance those interests or programs.

3. Each official will vary the degree to which he complies with directives from his superiors, depending upon whether those directives favour or oppose his own interest.

4. Each official will vary the degree to which he seeks out additional responsibilities and accepts risks in the performance of his duties, depending on his own particular goals.<sup>23</sup>

Directives from a superior usually require interpretation by a subordinate to be put into practice or passed down to the next level of the hierarchy. This allows considerable variance to occur in the way decisions are implemented. Reports on how decisions are implemented and their consequences need to be condensed as they pass up the hierarchy. "The need for condensing information is an essential part of the bureau's communication process. Otherwise the top man would be buried under tons of facts and opinions."<sup>24</sup>

### **Information integrity**

The cumulative affect of condensing qualitative information was examined by Tullock.<sup>25</sup> Tullock assumed that the quantity of information gathered by each official at the lowest level of the hierarchy was one unit of data for each unit of time. He considered the example of a hierarchy with seven levels with each level having a span of control of four people. This would mean that there would be 4,096 officials at the bottom level collecting 4,096 units of data in each time period. If the average official screens out only half the data given to him then the top official will receive a total of 1/64 of all the information, or 64 units per time period. The winnowing process will have omitted 98.4% of the data originally gathered.

However, the quality of the information at the top of the

hierarchy "will probably be very different from that originally put into the communication system at the lowest level".<sup>26</sup> The substantive content of the information would be subject to distortion from the biases of each official who was responsible for its condensation as it passed through each level in the hierarchy. Yet it is the qualitative aspects of employee relations, product quality, customer service and supplier relations that provide competitive advantages. The integrity of qualitative information<sup>27</sup> and the integrity of the parties to the transaction<sup>28</sup> can be a deciding factor if business is to proceed. To minimise transaction costs and risks, trust needs to be established. The participation of strategic stakeholders in the governance of a firm provides a basis to establish trust and so more efficient and effective communications than can be established by market relationships.<sup>29</sup>

Firms exist because market price signals cannot be used to communicate qualitative information like trust, or if they can be used, price communication is not as efficient as people communicating directly between themselves with sight, sounds and symbols through working together in a team, group or hierarchy. In other words, firms exist because they economise the volume of information required to organise economic transactions. By economising information, firms reduce the cost of transactions. Firms exist because markets fail to economise the cost of organising transactions.<sup>30</sup> Stakeholder participation provides a way to further decrease the need and cost of obtaining information through markets. It is well known that bad news travels slowly or not at all. There are substantial incentives for subordinates to withhold, or selectively report any information to their superior which may reflect on themselves. There are likewise substantial incentives for subordinates to report information which can excuse poor performance. In a keiretsu, the subordinates in the supplier and client organisations will be selecting quite different information to report up the hierarchy than the subordinates in the producer firm. The parallel channels of information from strategic stakeholders with different perspectives provide the basis for a keiretsu council to obtain more accurate information than can be obtained by directors without access to strategic stakeholders.

However, beside stakeholder participation providing advantages in corporate governance it can also provide important

operational competitive advantages. Modern management techniques such as Just In Time (JIT) delivery of supplies, Total Quality Management (TQM) of output, other quality assurance processes, worker participation, and autonomous learning centres, contribute to non-market relationships. All these relationships involve the participation of strategic stakeholders in the information and control system of a firm. Jones states: "The firm will gain competitive advantages if it is able to develop relationships with its stakeholders based on mutual trust and co-operation".<sup>31</sup> He points out that American auto firms are not as competitive as Japanese firms because they incur the costs of bureaucracy from vertical integration. Japanese firms avoid these costs by establishing trusting relationships with their suppliers. Likewise, US firms incur more transactions costs from employee turnover than Japanese firms. Processes for defining and auditing quality production have now been established by the International Standards Organisation (ISO). In some firms, ISO processes are becoming institutionalised as a governance mechanism for productive activities through the establishment of forums constituted by, and accountable to, strategic stakeholders. A keiretsu council is composed of strategic stakeholders who have the knowledge, means and incentive to improve operations as they did for Akai.

All the above competitive advantages of a Japanese keiretsu are shared by the Mondragón stakeholder co-operatives which have woven a much richer web of strategic stakeholder participation. The information and control architecture of a typical industrial co-operative is shown in Figure 4. Figure 5 shows the architecture of a "Relationships Association" or Group of industrial co-operatives which follows the pattern established in Figure 4. This recursive pattern is replicated in the architecture of the whole group which constitutes the Mondragón Corporación Cooperativa (MCC) outlined in Figure 6.<sup>32</sup>

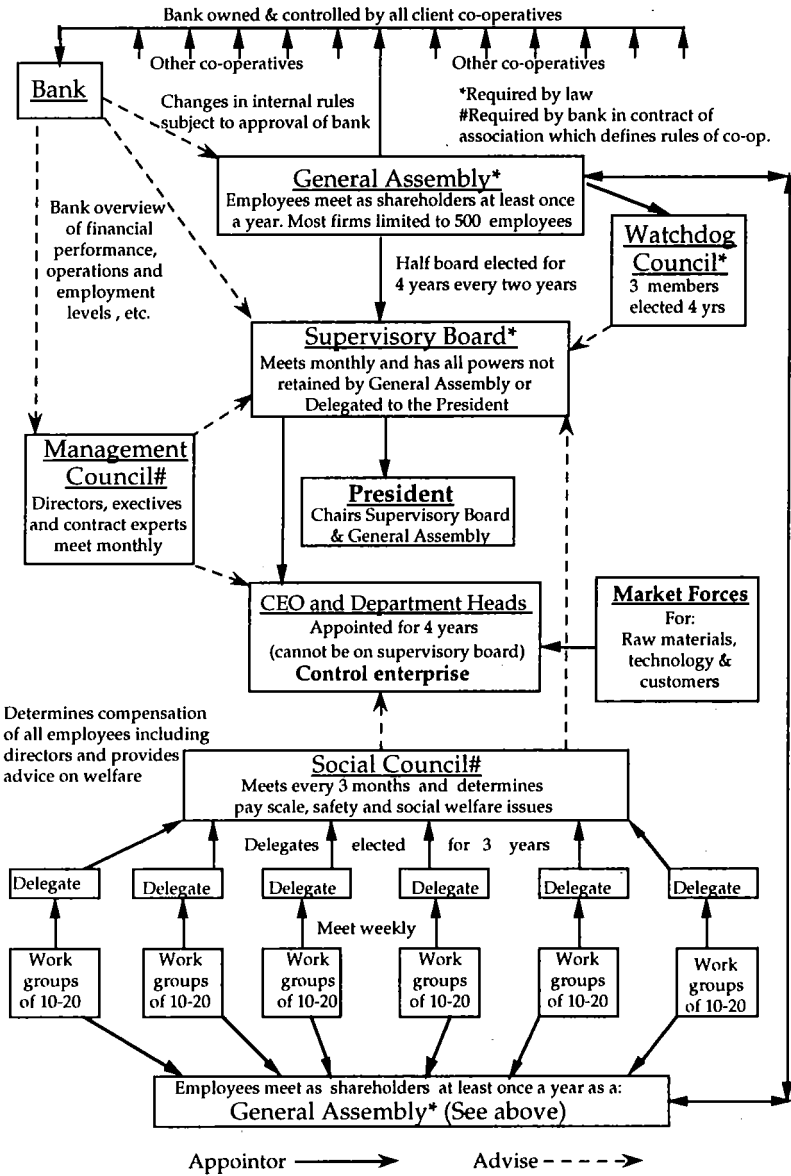
### **Stakeholder participation as a strategic variable**

The corporate architecture in Mondragón is treated as a strategic variable rather than being culturally determined and fixed as it is in Japan and elsewhere. The control of each type of Mondragón firm is designed to match the nature of its business.

Control in Mondragón co-operatives is exercised through a

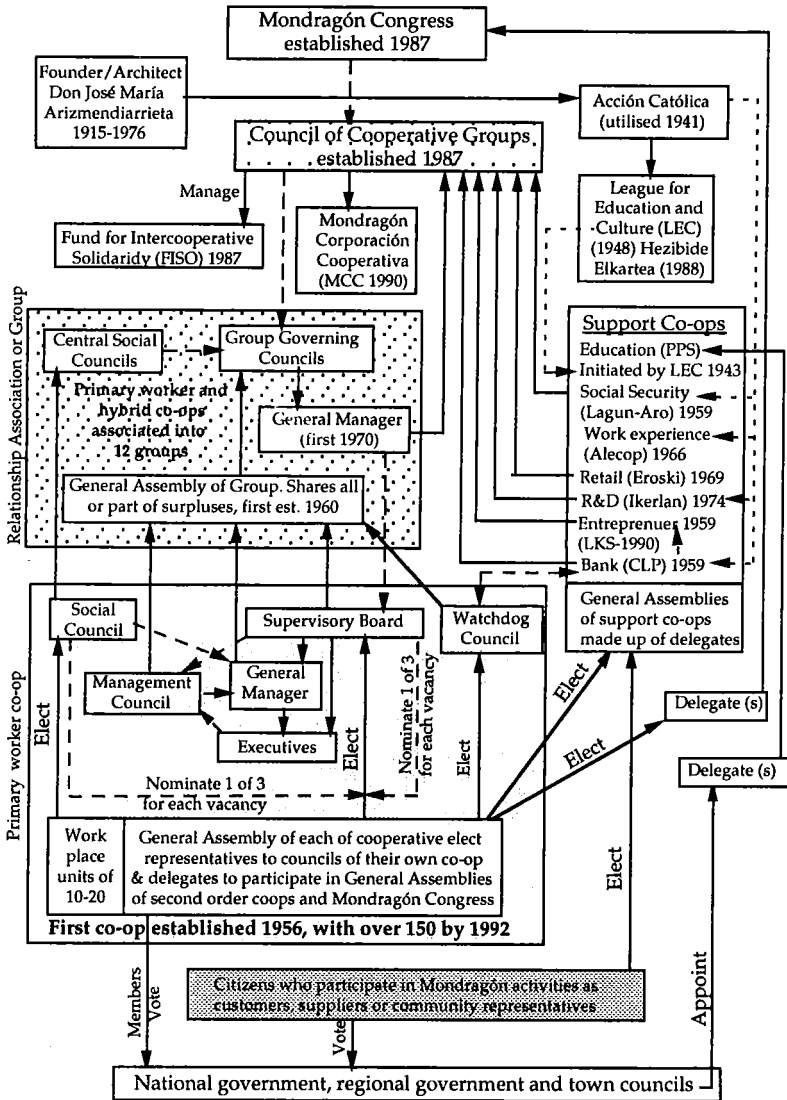
FIGURE 4

Governance of Mondragón Worker Cooperatives



Sources: Ellerman 1982; Whyte & Whyte 1988; Morrison 1991

**FIGURE 5**  
**Mondragón Cooperative Social System**  
 (with dates of establishment)

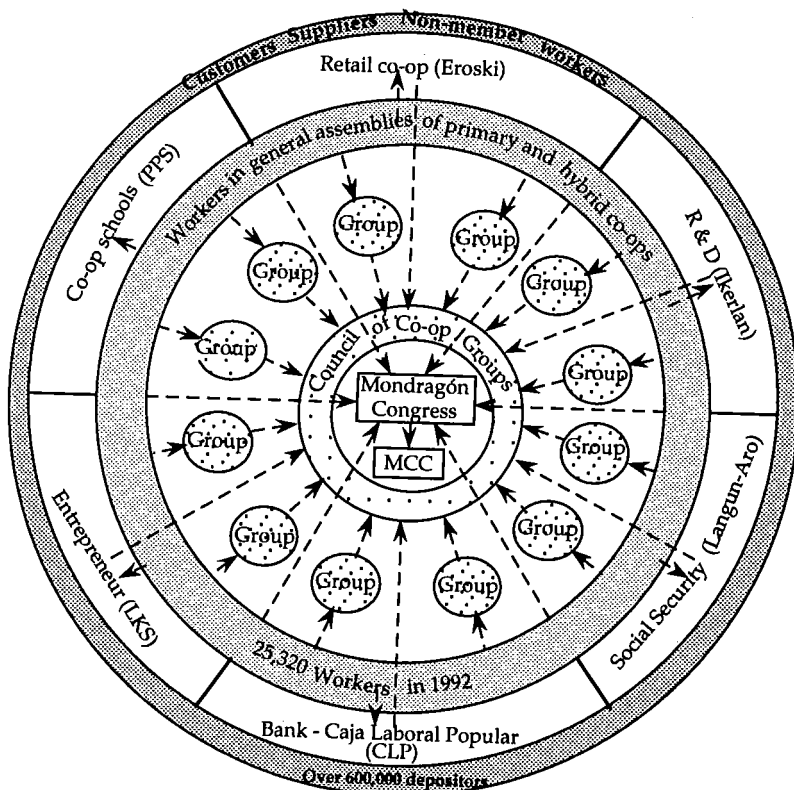


Vote, appoint, delegate, manage: —> Advise or nominate: - -> Start up: - ->

Sources: CLP, 1992; MCC, 1992; Mollner 1991; Morrison 1991; Whyte & Whyte 1988

FIGURE 6

Control Network of Mondragón Activities



More than 150 primary worker and hybrid co-ops are associated into 12 groups or relationship associations  
 Total 1992: Assets US\$6.3 bn.; Sales US\$3.0 bn.; Exports US\$380m.

Sources: Whyte & Whyte (1988); Morrison (1991); MCC (1992)

supervisory board (as shown in Figures 4 and 5). Like a keiretsu council, only strategic stakeholders participate in the supervisory board which represents a "stakeholder council". By definition, independent directors cannot be stakeholders with an operational interest. As there is little point in having such people involved in the governance of a Japanese keiretsu or Mondragón co-operative, few are found. Compare this situation with Anglo firms where independent directors are perceived as a requirement of good corporate governance.

The opposite situation is found on the supervisory boards of Mondragón industrial co-operatives where only employees are appointed! As each industrial co-operative is a member of a Relationship Association or Group (as shown in Figures 4 and 5) and the Group has as its members supplier and client companies, like a keiretsu, all strategic stakeholders participate in control of their members. Customers appoint half of the supervisor board and the chairman of the large retail chain store *Eroski*. Firms which process primary products like *Miba*; *Barrenetxe*; *Behi-Alde*; and *Udala* have half their supervisory board appointed by workers and the other half by the farmers who are their suppliers. The student work experience co-op, *Alecop*, has its supervisory board made up of its three strategic stakeholders with equal numbers of staff, students and parents. The composition of the supervisory board of the piggery, *Artxa*, reflects the proportion of value added by each class of stakeholder being the customer (*Eroski* retail store); pig farmers (*Anoga*) who fattened progeny for the co-op under contract; a supplier of feed, equipment and veterinary services (*Miba*), and workers of *Artxa*.<sup>33</sup> Co-ops which support other co-ops and have them as shareholders are described as secondary co-ops. These include the bank, *Caja Laboral Popular* (CLP), social security co-op, (*Lagun-Aro*), and the industrial research and development co-op, (*Ikerlan*). Their supervisory boards have an equal number of workers and clients, ie respectively, bank borrowers, welfare beneficiaries and users of research. In this way, the secondary co-ops obtain the "quality of information" and "incentives to efficiency or protection of customers" as suggested by Kay<sup>34</sup> for a "Customer Corporation".

The incentive architecture of Mondragón firms is also radically different from that found in traditional for-profit or not-for-profit firms analysed by academics. While suppliers and customers

can also be members of a firm, profits are not shared according to the value of good or services traded as is commonly found in Anglo co-operatives. All profits accrue to the workers even though control may be shared with other stakeholders. However, workers in support firms share in the profits of the organisations which they service. Bonuses for workers in the CLP are based on the average profits and losses of all firms which are financed by the bank. The bank is owned and controlled by these firms. The allocation of funds and the terms of loans are not just determined by financial markets or the authority system within the bank but by external relationships and values.

On the borrowing side, interest payments by co-ops with trading difficulties may be waived and such forbearance extended to principal repayments.<sup>35</sup> In this way the cost of finance becomes a variable instead of the cost of labour, consistent with a value system of labour having priority over capital. Notwithstanding this approach, "the bank is among the one hundred most efficient financial institutions in the world in terms of the profit over total assets ratio".<sup>36</sup> For depositors, the bank organises regional consultative councils to exchange information on the requirements of their customers. (Similar consultative meetings are organised by the retail co-op which has both its workers and customers as members.) A unique feature of the bank is that it periodically adjusts all loans and deposits for inflation or deflation of the currency to keep purchasing power constant.<sup>37</sup>

### **The governance of transactions by stakeholder relationships**

Firms in Mondragón are formed to create socially satisfying employment. More fundamentally, managers are accountable to the workers to reverse the power relationship on which many theories of the firm are based. The institutional arrangements established in Mondragón illustrate how to create "an environment where there is no perceived threat of opportunism, even from opportunists".<sup>38</sup>

There is no entrepreneur,<sup>39</sup> experimenting on ways to reduce the costs of transactions within his authority. "Mondragón makes it clear that market or planning decisions are value decisions".<sup>40</sup> However, this is seen as an advantage by Bradley and Gelb<sup>41</sup> who favourably compare Mondragón with the "enriched employment relationship extending far beyond the cash nexus"

of Japanese firms and X-inefficiency<sup>42</sup> found with "Western" practices. Morrison<sup>43</sup> quotes the founder of Mondragón, Father Arizmendi as saying:

A company cannot and must not lose any of its efficiency just because human values are considered more important than purely economic or material resources within the company; on the contrary such a consideration should help efficiency and quality.

Arizmendi anticipated the analysis of Tullock<sup>44</sup> and Downs<sup>45</sup> concerning the inefficiencies of bureaucracies analysed earlier. Whyte and Whyte<sup>46</sup> quote Arizmendi as saying:

Any system of organisation which attains a certain size runs the risk of being undermined, if within it flourishes a typical bureaucratic and functionary spirit, a fearful illness which degrades any achievement no matter what is its nature, as it blocks the dynamic agents which strive to maintain efficiency in response to changing conditions.

An incentive to form new firms to create jobs and for groups to pool labour is shared by all workers in the Mondragón system through their social security and health insurance support co-op Lagun-Aro. The level of contributions by all workers to Lagun-Aro depends upon the need to provide unemployment and health care payments for workers. This provides an incentive for members to find new jobs for displaced workers and organise transfers within and between groups of firms. It also provides incentives to implement health maintenance and preventive medicine programs.

The ability to create new firms is provided by the co-op bank with a co-op that act as an entrepreneur (LKS). This role may also be assisted by support from Group management. When employment in any industrial co-op approaches 500, part of the business is transferred to a new co-op. It is through this process that many Mondragón firms become a supplier or customer of other firms in their groups in a similar way to keiretsu firms.

"In practice, the Mondragón co-operatives have collapsed the roles of worker, capitalist, and entrepreneur into the same group of people".<sup>47</sup> As the bank was initially limited to lending to its

members, the rapid growth in its deposit base provided an additional incentive to create new client-owners.<sup>48</sup> As a co-op, the bank was initially restricted to making loans to its members located in the four Basque provinces of Spain. A general banking licence was not obtained until 1991.

Many European and Japanese banks have an equity interest in their major clients which provides a basis to establish an active relationship in the control of their borrowers. In Mondragón, the ownership of the bank is held only by its borrowers. However, this subservient relationship does not allow the owners to exploit their banker as each member co-op must enter into a contract of association with the bank. It is this contract<sup>49</sup> which defines the legal architecture of each co-op and how it operates. A condition for new firms to be created or to become part of the MCC is that they adopt a self-governing information and control system. Member firms are always free to leave the system; four left in 1992.<sup>50</sup>

To minimise the cost of government regulation, a self-governing architecture should likewise be a condition for firms to obtain a licence to exist and operate in Anglo cultures. In other words, all social institutions, and firms in particular, should be required to adopt self-governing features in their corporate by-laws or Articles of Association to obtain a licence to exist and/or operate. In this way, governments could "imprint the DNA" of social institutions to reduce the role of government.<sup>51</sup> Stakeholder participation is a condition precedent for self-governance.<sup>52</sup>

When a firm is under stress, it is its Watchdog Council which is responsible for mediating assistance from the Bank. The bank made a number of interventions during the deep and long Spanish depression between 1976 and 1983. "During 1983, thirty-four of the one hundred worker co-operatives required help from the intervention department".<sup>53</sup> However, "During the thirty-two interventions in 1983, only two chief executive officers, six department managers, and three chair-persons of governing councils were replaced".<sup>54</sup> It was in 1983 that the bank formalised intervention activities into a specialised department and shut down two of the only three firms which have ever been terminated since Mondragón was established in 1956. The re-organisation of a Mondragón firm under stress may involve changes which require sacrifices of not only workers in the firm but in member firms of its group as well as its bankers. Sacrifices

by workers are negotiated through the social council of the firm under stress. The group social council may also be involved as well as the other governing organs of the firm, its group and support organisations. The re-allocation of resources is governed by neither markets nor an authority system but through negotiations with related parties.

Although a third of all Mondragón firms were under stress in 1983, this does not reflect unfavourably on their relative competitiveness. Mollner reported:

Mondragón productivity per worker is the highest in Spain and their absenteeism rate has been consistently less than half that experienced by conventional firms. Throughout the 1960s and 1970s, Mondragón was more than twice as profitable as the average conventional Spanish firm. Mondragón has consistently out-performed conventional firms even in hard times. Between 1975 and 1983 there was a deep recession in Spain. The Basque economy overall lost 20 percent of its jobs, with industrial positions decreasing by 31 percent. By the end of 1982 about 178,000 workers were out of work in the Basque region, representing an unemployment rate of 18 percent. During this same period, Mondragón increased owner-worker jobs by 36 percent, with most of them in the industrial sector. Mondragón not only protected its 11,000 existing jobs, it also created 7,000 new ones and created 37 new co-operative enterprises. In 1985 the unemployment in the Basque country was 27 percent. According to the definition of unemployment customarily used in the United States, only 0.6 of the members of the co-operatives were unemployed. In terms of total industrial output, Spain's grew at an annual rate of 1.5 percent during the deep recession years of 1976 to 1983. Mondragón averaged 6 percent during the same period.<sup>55</sup>

A World Bank study by Thomas and Logan reported:

Various indicators have been used to explore the economic efficiency of the Mondragón group of co-operatives. During more than two decades a considerable number of co-operative factories have functioned at a level equal to or superior in efficiency to that of capitalist enterprise. The compatibility question in this case has been solved without doubt. Efficiency

in terms of the use made of scarce resources has been higher in co-operatives; their growth record of sales, exports and employment, under both favourable and adverse economic conditions, has been superior to that of capitalist enterprises.<sup>56</sup>

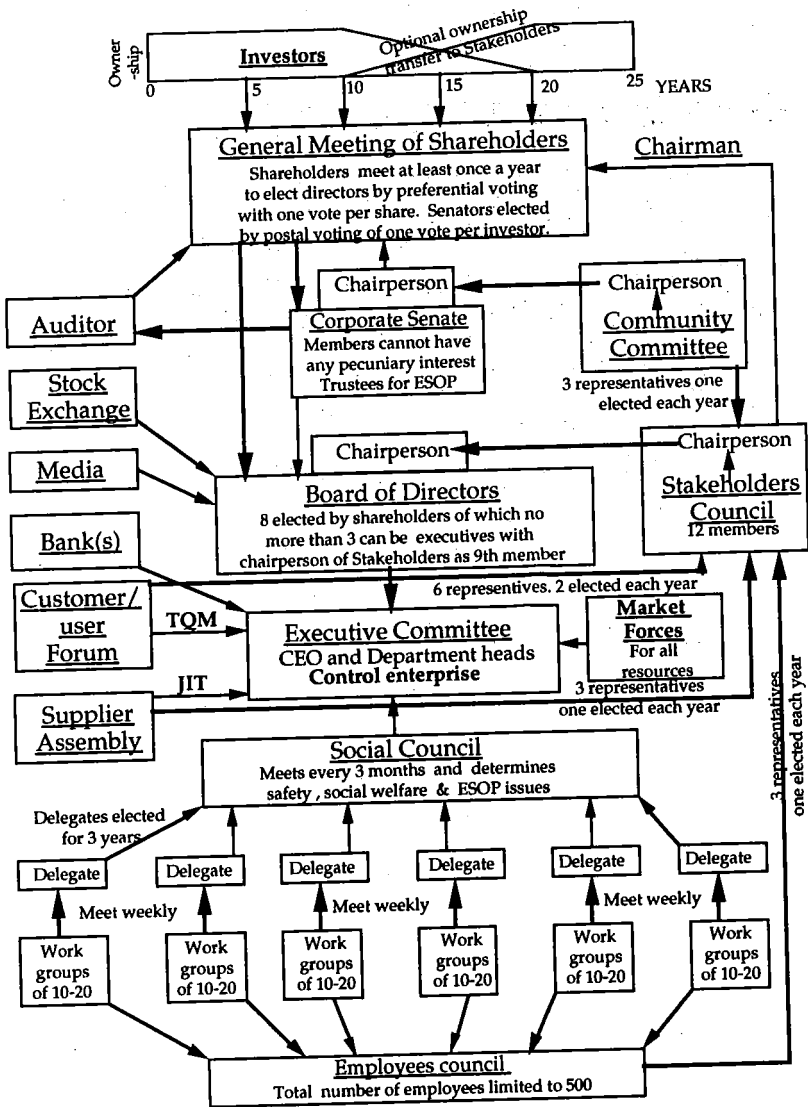
### **The practice and success of stakeholder participation**

The record of Japanese and Mondragón firms is outstanding. It provides compelling practical arguments for involving strategic stakeholders in the control of business. The idea of introducing stakeholder participation in the UK has been proposed by the leader of the Labour Party.<sup>57</sup> With a general election due in 1997, this has politicised analysis. Analysts whom one would expect to be economic rationalists have recently expressed concerns over stakeholder participation<sup>58</sup> or have rejected it out-right.<sup>59</sup> Sternberg assumed that stakeholder participation would not "maximise long-term owner value" for firms with investors. However, stakeholder participation can be designed to protect and enhance long term ownership value provided that the business has an appropriate control architecture as illustrated in Figure 7.<sup>60</sup> But do not just rely on my analysis. The recommendations of Harvard Professor Michael Porter also directly contradict Sternberg. To make US companies more competitive with Japanese and German firms, Porter<sup>61</sup> recommended policies to "encourage long-term employee ownership" and "board representation by significant customers, suppliers, financial advisers, employee, and community representatives". Porter<sup>62</sup> also suggested that "Ownership should be expanded to include directors, managers, employees, and even customers and suppliers" ie for strategic stakeholders to participate not only in control but also ownership.

Even without introducing any changes in ownership it is possible to introduce stakeholder participation along the lines illustrated in Figure 7 without changes in corporate law. Only changes in the constitutions of corporations are required. Government approval is not required for members to change the Articles of Association or corporate by-laws of corporations. However, in providing firms with a "licence to operate", governments could well require firms to establish "stakeholder councils" to act as an internal watchdog to protect consumers, employees and customers. This could increase the effectiveness

FIGURE 7

Stakeholder Governance



and efficiency of protecting stakeholders while at the same time reducing government expenditures in consumer protection, industrial health and safety, equal opportunity employment, environmental protection and fair trading, etc. All this while providing competitive advantages for the business!

Notwithstanding the concerns of the *Economist*,<sup>63</sup> the practice of involving strategic stakeholders in business is spreading through Anglo cultures. So powerful is the belief in stakeholder participation that investors commonly agree to dilute their equity to allow strategic stakeholders to share ownership in either privately held start up companies or in very large public corporations. However, in Anglo cultures, this participation is usually limited to employees. Employees, as a group, are now appearing as the biggest shareholders in many of the largest corporations in many Anglo countries. In Australia, over 7% of our largest company, BHP, is owned by its workers, Lend Lease has 18% employee ownership while our largest retail chain, Coles Myer, has employee ownership of around 3%. "Of the approximately 7,000 companies listed on American stock exchanges, about 1,000 firms are at least 10% employee held".<sup>64</sup>

In Anglo cultures, there are compelling pragmatic reasons for introducing stakeholder participation. A number of studies by the National Centre for Employee Ownership (NCEO) in the US have shown that corporate performance is improved by employee ownership.<sup>65</sup> An important finding of the studies was that performance was improved with active participation by employees in control. A 1987 report by the General Accounting Office of the US government found "that firms that combined ownership with participation had a productivity growth rate that was 52 per cent higher with Employee Share Ownership Plans (ESOPs) than they would have achieved without it".<sup>66</sup> *Equity Report*, quoted the *Wall Street Journal* of February 13th, 1992, which stated that: "when employees own a big stake, it's a buy signal for investors". Australian research has also shown that employee ownership significantly improves corporate performance.<sup>67</sup> The ability of stakeholder ownership and control to improve corporate performance is consistently supported by evidence from around the world. Empirical evidence does not support rejection of stakeholder participation. The theoretical arguments outlined above which support stakeholder participation are persuasive. Theoretical analysis also provides compelling arguments for the introduction of

stakeholder participation as a matter of public policy as well as for private profit. I will conclude by considering these issues.

### **Stakeholder governance instead of government regulation.**

Firstly I want to define the way in which I am going to use words like regulate, self-regulate, govern and self-governance. The word "regulate" will mean that control is exercised to meet some established standard. Intrinsic in this meaning is the necessity to obtain feedback information to inform the controller(s) of any differences between the actual and desired outcome. Defining the word in this way means that while regulators must be able to control, controllers may not be regulating. Self-regulation requires that the people being regulated are responsible for making the system of regulation work in achieving the required standard of performance. The word "govern" is ambiguous and could mean either control or regulate. The word "governance" will be used to describe a *system* of regulation where the standard of performance against which the system is being regulated may be subject to change by the people being regulated. Self-governance will be taken to mean that controllers are subject to being regulated by the people being governed. In political terms this is described as democracy or "rule of the people, by the people, for the people".

Firms controlled by agents who are, or can be, affected by the firm will be described as having "Stakeholder Governance".<sup>68</sup> In this situation, stakeholders can appoint and/or influence the controllers and so determine the way the firm can, or could affect them. Stakeholder governance meets the test for self-governance as defined above. Stakeholder governance can produce self-regulation when the performance objectives established by the stakeholders are consistent with those established by the host society of the firm. When stakeholder participation is sufficiently wide to reflect the concerns of the host society, the need for government bureaucracies to intercede as regulators is eliminated. If stakeholders in any particular firm or industry are not sufficiently wide to reflect community concerns, then self-governance can still be achieved by introducing self-governance into government bureaucracies.<sup>69</sup>

Firms can only become self-regulating when they have a reliable information system providing feedback details on their performance. Stakeholder participation in the control architecture

of firms provides a basis for obtaining reliable, quick and cheap feedback information. Such information can also be used to minimise operating costs and increase operating effectiveness. Self-regulation and competitive advantages represent two sides of the same coin. The need for information from strategic stakeholders was recognised by Porter<sup>70</sup> who noted that: "Both Japanese and German companies practice a form of decentralization involving much greater information flow among multiple units in the company, as well as with customers and suppliers". The establishment of additional communications channels provides the means for reliable messages to be transmitted over unreliable channels.<sup>71</sup> Access to reliable information is a necessary but not sufficient condition for regulation, self-regulation and self-governance. So a condition precedent for assuring self-regulation and self-governance is the presence of multiple independent channels of communication. To permit information channels of social institutions to be separate they need to have independent authority systems like the CEOs of keiretsu firms or the members of a Mondragón Social Council or Watchdog Council.

The term "compound board" will be used to describe firms which have more than one centre of authority. Compound boards are common in Europe and are mandated for larger enterprises.<sup>72</sup> Another reason for compound boards is to improve the integrity of the decision making and control system. Operating integrity of a social system can be corrupted by human failings. The corrupting influences of power are well known. Absolute power can corrupt absolutely.

The corrupting influence of absolute power can be avoided by the division of powers in a compound board to establish checks and balances.<sup>73</sup> This also introduces the advantages of specialisation in decision making and control. Compound boards allow a reduction in the knowledge and information processing abilities of individuals who participate in control. It is through specialisation that compound boards can allow ordinary people to achieve extra-ordinary results as demonstrated by Mondragón co-operatives. It also increases the number of individuals who can formally participate in control.

Unitary boards have greater exposure to information overload from lack of specialisation in decision making, information distortion from lack of independent channels of communication,

and corruption from absolute power. Unitary boards have powers in excess of those required to add value.<sup>74</sup> Powers not required to add value are: the determination of the accounting procedures by which profits are defined and the performance of directors evaluated; selection, control and payment of the auditor; selection and control of experts appointed to advise stakeholders; level of their own remuneration; their own retirement; selecting new board nominees, and control of general meetings of members to whom they are accountable. The handing over of these powers to an independent authority centre can only provide operating advantages for a board of directors by reducing information overload, distortion and the temptations of absolute power.

One of the most notable features about worker owned companies around the world is that they do not survive over the longer term with a unitary board. All well established worker owned businesses with more than a few hundred members have compound boards, even if unitary boards are the dominant form in their host culture.<sup>75</sup> A worker co-op or ESOP may get established with a unitary board with dedicated and committed leadership, but rarely do they survive leader succession. It is in the process of managing succession that the conflicts of interest in a unitary board can become fatal for the enterprise. Survival may depend upon the existence of a de facto compound board formed by the involvement of a banker or other stakeholder. The existence of a compound board also makes it practical to involve strategic stakeholders as otherwise their participation would introduce counter-productive conflicts of interests. This point was overlooked by Porter.<sup>76</sup> In discussing mutual organisations, Llewellyn<sup>77</sup> noted the "complexity of agency relationships, creates potential (and unnecessary) conflicts between customers and shareholders".<sup>78</sup>

### **Operating advantages of self-regulation**

Compound boards can also become operationally important as firms increase in size and complexity in an analogous way to the advantages obtained from dividing the operations of a firm into separate divisions. Williamson<sup>79</sup> explained how low frequency strategic information is separated from high frequency operating information with the operating information being processed in parallel through the adoption of a divisional structure. Each

division may typically have its own sales, manufacturing, engineering and finance department. The decomposition of communications into operating and strategic information reduces information overload and provides a basis for establishing what is described in cybernetics as "double feedback". Williamson quotes Ashby<sup>80</sup> in noting that the survival of any organism under natural selection is depended upon developing "two readily distinguishable feedbacks". Cybernetic analysis demonstrates that double feedback is an essential feature for the self-regulation for any living thing, machine, device or organisation. The ability of any living thing, machine, device or organisation to constructively adjust to a changing environment depends upon its information and control system. The Law of Requisite Variety<sup>81</sup> requires sufficient variety in the information and control systems to match the variety of changes in the environment to which a response is required.

The ability of a control centre to regulate in a timely fashion is improved by expanding the capacity of its information channels.<sup>82</sup> The capability to process increased information may depend upon parallel processing. This is described as "distributed intelligence" which the US Vice President considered a powerful metaphor in defining the role of government.<sup>83</sup> Unitary boards do not represent distributed intelligence or variety in information and control. We must conclude that firms with a unitary board lack the capabilities of those with compound boards. From purely cybernetic considerations we can state that (i) the participation of strategic stakeholders in the control system can increase the capability of firms to adjust to changes in their environment and (ii) compound boards can increase the capability of a firm to process information. In other words, a necessary condition for firms to have superior performance and competitive advantages is to have a governance architecture which uses compound boards and the involvement of strategic stakeholders. A more general formulation of this conclusion is that the ability of social institutions to become self-governing is dependent upon them having requisite variety in their information and control systems from stakeholder participation.

## **Role of government**

The Law of Requisite Variety can be proved mathematically by

information theorists and is generally applicable. It applies to both the regulation of firms, or to governments who seek to regulate firms, or the complexity of the financial system. It means that centralised regulation of any complex system is not feasible because requisite variety is not available. This is why socialism does not work and central banking can be counter productive in managing the variety of circumstances found in a complex economy. It also explains why "the cumulative pattern of regulation has had unintended consequences".<sup>84</sup> The Law of Requisite Variety also explains why self-regulation does not and cannot work when organisations have a centralised control system as this denies requisite variety to manage complexity. It explains why attempts by governments to regulate complex systems cannot be effective and are likely to become more counter productive as complexity of society increases. Evidence of regulatory failure of privatised utilities in England is described by Kay.<sup>85</sup> There are also important lessons for the current Australian Financial System Inquiry which was set up by the government to consider the establishment of one or more centralised "super-regulators". Any meaningful protection of consumers in the financial system will require a system of regulation which has sufficient variety in its information and control channels to match the complexity and variety of financial products. Stakeholder participation will be required to provide requisite variety. Compound boards will be required to allow power to be shared with stakeholders as well as providing requisite variety of information and control for self-regulation.<sup>86</sup>

The above observations are quite general and could be applied to the problem of regulating privatised utilities analysed by Kay in a previous issue of this Journal. While the above proposals are different to those considered by Kay,<sup>87</sup> his words are still applicable when he said "The essence of these proposals is that many of the duties of the regulator are taken over by the board of the customer corporation".

The role of government needs to change from trying to regulate with direct interventions to indirect methods as found in nature. Elements of this indirect approach already exist in Australian company law. One example is the requirement for larger companies to have an auditor. However, the inability of this requirement to protect investors and creditors has created what is described in the literature as an "expectation gap".<sup>88</sup> Auditors

do not have the power or incentive to provide meaningful stakeholder protection when they report to a unitary board.<sup>89</sup> Allowing corporations to exist with unitary boards increases the cost of monitoring and regulation by government. These costs could be privatised, while providing operating advantages to companies, by requiring the adoption of an architecture which introduces inbuilt consumer protection. The establishment of stakeholder councils, constituted independently of the board, provides a means to: (a) evaluate "corporate social performance";<sup>90</sup> (b) undertake social audits;<sup>91</sup> (c) provide financial auditors with the power and incentive to blow the whistle when appropriate, and (d) take on the role of an ombudsman to evaluate concerns of employee, suppliers and customers. Stakeholder participation in this way could be condition precedent for a firm to obtaining a licence to operate in certain activities. Firms in the securities industry are a case in point.

The introduction of arrangements for government agencies and private sector businesses to share power with their clients, customers and suppliers would create a "stakeholder economy".<sup>92</sup> There also exists the opportunity for democratising ownership as well as control.<sup>93</sup> Stakeholder participation provides profound advantages for governments, firms and their stakeholders. In either the public or private sector, stakeholder participation offers a way to increase efficiency, effectiveness and the quality of democracy.

**Shann Turnbull is the past President of the Australian Employee Ownership Association and is undertaking research at the University of New South Wales.**

#### Notes

- 1 Freeman 1984
- 2 Clarkson 1994
- 3 Donaldson and Preston 1995:85
- 4 Preston 1996
- 5 Other possibilities are described in Turnbull 1994b, 1997
- 6 Clarkson 1994
- 7 Preston 1996
- 8 Kay 1996:29
- 9 Turnbull 1990:10
- 10 Grossman & Adams 1993:7
- 11 RSA 1995
- 12 Grossman & Adams 1993:12-13

- 13 See Grossman & Adams 1993
- 14 Monks 1996
- 15 Gordon 1993
- 16 Fukao 1995
- 17 *Analytica* 1992:130
- 18 *Equity Report* 1992:10
- 19 Turnbull 1995a; 1995b; 1995e
- 20 Hawley and Williams 1996:64-5
- 21 This was found to be a major problem for US firms in a report into their competitiveness by Regan 1993
- 22 Kester 1991
- 23 Downs 1967:77/8
- 24 Downs 1967
- 25 Tullock 1965
- 26 Downs 1967:116-118
- 27 Akerlof 1970
- 28 Klein, Crawford, & Alchian 1978
- 29 Jones 1995
- 30 Coase 1986; Alchian and Demsetz 1972
- 31 Jones 1995:423
- 32 A detailed analysis of how the system operates will be found in Turnbull 1995c
- 33 Anoga is not part of the Mondragón system being the Asociación Norte de Ganaderos Northern Livestock Farmers Association
- 34 Kay 1996:41
- 35 'During the severe Spanish recession of the early 1980s, the CLP wrote off more than one million dollars in co-op loans and declared an interest moratorium on about 40 per cent of the rest.' Quoted in Morrison 1991:114
- 36 MCC 1994:11
- 37 Mollner 1991:126
- 38 Ghoshal and Morgan 1996:26
- 39 As assumed by theorists such as Coase 1986 and Williamson 1975; 1985; 1990
- 40 Morrison 1991:98
- 41 Bradley and Gelb 1983:30
- 42 Leibenstein, 1987
- 43 Morrison 1991:111
- 44 Tullock 1965
- 45 Downs 1967
- 46 Whyte and Whyte 1988:100
- 47 Morrison 1991:100
- 48 CLP 1992
- 49 Set out in Appendix B of Campbell, et al. 1977
- 50 CLP 1993
- 51 As proposed by the US Vice President Gore 1996a, 1966b
- 52 As described by Turnbull 1997
- 53 Whyte and Whyte 1988:170

- 54 Whyte and Whyte 1988:172
- 55 Mollner 1991:128-9
- 56 Thomas and Logan 1982: 126-127
- 57 Blair 1996
- 58 *Economist* 1966a
- 59 Sternberg 1996
- 60 Details of Figure 7 are described in Turnbull 1994b. Other concerns of Sternberg are discussed in Turnbull 1997
- 61 Porter 1992:16
- 62 Porter 1992:14
- 63 *Economist* 1996a
- 64 Tseo 1996:66
- 65 *Equity Report* 1992:7-8
- 66 *Equity Report* 1992:7-8
- 67 *Equity Report* 1992:2-4
- 68 Turnbull 1997
- 69 As described in Turnbull 1994b, 1995a
- 70 Porter 1992:11
- 71 Ashby 1968:190. Ashby was a pioneer in the science of information and control which is called cybernetics. Cybernetics is based on information theory which has a rigorous mathematical basis.
- 72 Analytica 1992, Turnbull 1995e
- 73 Tricker 1994:247
- 74 Turnbull 1993, 1994a
- 75 Bernstein 1976
- 76 Porter 1992
- 77 Llewellyn 1996:58
- 78 Mondragón shows how an appropriately designed compound boards can allow the Porter recommendation to be implemented while avoiding the concerns of Llewellyn and Williamson 1985:308. My suggestion for listed firms in Figure 7 follows the Williamson view that representatives of an "interest group", who are not investors, be limited to "informational participation" like suppliers and customers in a keiretsu.
- 79 Williamson 1985:282
- 80 Ashby 1968:131
- 81 Ashby 1968:202
- 82 Ashby 1968:211
- 83 Gore 1996a
- 84 Porter 1992:15
- 85 Kay 1996
- 86 The need for power sharing to protect the interests of stakeholders is described by Hill and Jones 1992
- 87 Kay 1996:45
- 88 Schelluch & Green 1996; Guthrie & Turnbull 1995
- 89 The need to adopt a compound board in the UK is recognised by Hatherly 1995 and Tricker 1994:247
- 90 Clarkson 1995

- 91 Turnbull 1995d  
 92 Blair 1996  
 93 Turnbull 1975, 1994c, 1977

## References

- Akerlof, G.A. 1970, 'The Market for "Lemons": Qualitative Uncertainty and the Market Mechanism.' *Quarterly Journal of Economics*, 84, pp488-500.
- Alchian, A. and Demsetz H. 1972, 'Production, Information Costs, and Economic Organization'. *American Economic Review*, 62, pp777-795.
- Analytica 1992, *Board Directors and Corporate Governance: Trends in the G7 Countries Over the Next Ten Years*, Oxford Analytica Ltd. England.
- Ashby, W.R. 1968, *An Introduction to Cybernetics*, University Paperback, London.
- Bernstein, P., 1976, *Workplace Democratization: Its Internal Dynamics*, Transaction Books, New Brunswick, New Jersey.
- Blair, A., 1996, 'Blair raises the stake', *The Economist*, p57, January 13th, London.
- Bradley, K. and Gelb, A. 1983, *Cooperation at Work: The Mondragón Experience*, Heinemann Educational Books, London.
- Campbell, A., Keen, C., Norman, G. and Oakeshott, R. 1977, *Worker-Owners: The Mondragón Achievement*, Anglo-German Foundation for the study of Industrial Society, London.
- Clarkson, M.B.E., 1994, *A Risk Based Model of Stakeholder Theory*, The Centre for Corporate Social Performance & Ethics, University of Toronto, Toronto.
- Clarkson, M.B.E., 1995, 'A stakeholder framework for analyzing and evaluating corporate social performance', *Academy of Management Review*, 20:1, pp92-117.
- CLP, 1992, *Annual Report*, Caja Laboral Popular, Euskadiko Kusxa, Spain.
- CLP, 1993, *Annual Report*, Caja Laboral Popular, Euskadiko Kusxa, Spain.
- Coase, R.H. 1986, 'The Nature of the Firm', *Organisational Economics: Toward a New paradigm for Understanding and Studying Organizations*, Eds. Barney, J.B. & Ouchi, W.G., pp80-98, Jossey-Bass, San Fransisco.
- Donaldson T. & Preston L.E. 1995, 'The stakeholder theory of the corporation: concepts, evidence, and implications', *Academy*

- of *Management Review*, 20:1, pp65-91.
- Downs, A. 1967, *Inside Bureaucracy*, Little Brown & Co., Boston.
- Economist* 1996a, 'Shareholder values', pp13-14, & 'Stakeholder capitalism', pp21-25, February 10th, London.
- Economist* 1996b, 'Investing in niceness', p65, August 31st, London.
- Ellerman, D.P. 1982, *The Socialization of Entrepreneurship: The Empresarial Division of the Caja Laboral Popular*, Industrial Co-operative Association, Sommerville, MA.
- Equity Report*, 1992, Australian Employee Ownership Association, Sydney,
- Financial Times* 1996, 'Sharpening up the cutting edge', p8, July 15th, London.
- Freeman, R.E., 1984, *Strategic Planning: a Stakeholder Approach*, Pitman, Boston.
- Fukao, M. 1995, *Financial Integration, Corporate Governance, and the Performance of Multinational Companies*, The Brookings Institution, Washington, D.C.
- Ghoshal, S. & Moran, P. 1996, 'Bad for practice: a critique of the transaction cost theory' *Academy of Management Review* 21:1, pp13-47.
- Gordon, J. 1993, 'What is relational investing and how cumulative voting can play a role', *Relationship Investing Conference*, Columbia University Law School, May 6-7, The New York Hilton.
- Gore, A. 1996a, 'The Technology Challenge: What is the Role of Science in American Society?', Prepared Remarks delivered to The American Association for the Advancement of Science, February 12, Baltimore, Office of the Vice President, Washington, D.C.
- Gore, A. 1996b, 'The Technology Challenge: Building a Government for the Information Age', Prepared Remarks delivered to The Armed Forces Communications and Electronics Association Conference, February 13, Tyson's Corner, Office of the Vice President, Washington, D.C.
- Grossman, R.L. & Adams, F.T. 1993, *Taking Care of Business: Citizenship and the Charter of Incorporation*, Charter Ink, Cambridge.
- Guthrie, J. & Turnbull, S. 1995, 'Audit Committees: Is There a Role for Corporate Senates and/or Stakeholders Councils?' *Corporate Governance: An International Review*, 3:2, pp78-89,

- April, Blackwell, Oxford.
- Hatherly, D.J. 1994, 'The case for the shareholder panel in the U.K.' *The European Accounting Review*, 4:3, pp535-553.
- Hawley, J.P. and Williams A.T. 1996, 'Corporate Governance in the United States: The Rise of Fiduciary Capitalism', Working Paper, Saint Mary's College of California, School of Economics and Business Administration.
- Hill, C.W.L. & Jones, T.M. 1992, 'Stakeholder - Agency Theory', *Journal of Management Studies*, 29:2, March.
- Jones, T.M. 1995, 'Instrumental stakeholder theory: a synthesis of ethics and economics', *Academy of Management Review*, 20:2, pp404-437.
- Kay, J. 1996, 'Regulating Private Utilities: the Customer Corporation', *Journal of Co-operative Studies*, 29:2, (No. 87), pp28-46, September.
- Kester, W.C. 1991, 'Japanese Corporate Governance and The Conservation of Value in Financial Distress', *Journal of Applied Corporate Finance*, Continental Bank, 4:2, pp98-104, Chicago.
- Klein, B., Crawford, R.G. & Alchian, A.A. 1978, 'Vertical Integration, Appropriable Rents, and the Competitive Contracting Process', *Journal of Law and Economics*, 21, pp297-326.
- Llewellyn, D.T. 1996, 'Some Reflections on the Mutuality v Conversion Debate', *Journal of Co-operative Studies*, 29:2, (No. 87), pp57-71, September.
- Leibenstein, H. 1987, *Inside the Firm,: the inefficiencies of hierarchy*, Harvard University Press, Cambridge.
- MCC, 1992, *Annual Report*, Mondragón, Spain.
- MCC, 1994, *Annual Report*, Mondragón, Spain.
- Mollner, T. 1991, *The Prophets of the Pyrennes: The search for the the relationship age*, Trustee Institute, Northampton, MA.
- Monks, R.A.G. 1996, 'The American Corporation at the end of the twentieth century', *Corporate Update Conference*, Chartered Institute of Company Secretaries in Australian, Hilton Hotel, March 11, Sydney.
- Morrison, R. 1991, *We Build the Road as We Travel*, New Society Press, Philadelphia.
- Porter, M.E. 1992, *Capital Choices: Changing The Way America Invests in Industry*, A Research Report Presented to The Council on Competitiveness and Co-sponsored by The Harvard

- Business School, Boston.
- Preston, L.E. 1996, 'Redefining the Corporation: Stakeholder Theory in International Perspective', *Centre for International Business Education and Research, Occasional Paper #78*, July, University of Maryland at College Park,
- Regan, V. 1993, 'The Will to Act: Report of the Subcouncil on corporate governance and financial markets to the Competitiveness Policy Council', Competitiveness Policy Council, Washington, D.C.
- RSA 1995, *Tomorrow's Company*, Royal Society for the encouragement of Arts, Manufactures & Commerce, London.
- Schelluch, P. & Green, W. 1996, 'The Expectation Gap: the next step', *Australian Accounting Review*, Issue 12, 6:2, September, pp19-23.
- Sternberg, E. 1996, 'Stakeholder Theory Exposed', *Corporate Governance Quarterly*, Hong Kong Institute of Company Secretaries, 2:1, March, pp4-18, Hong Kong.
- Thomas, H. & Logan, C., 1982. *Mondragón: An Economic Analysis*, George Allen & Unwin, London.
- Tricker, R.I. 1994, *International Corporate Governance*, Simon & Schuster, Singapore.
- Tseo, G. 1996, 'Employee stock ownership firms, producer co-operatives and the forgotten model of Mondragon', *Journal of Co-operative Studies*, 29:1, (No. 86), pp65-92, May.
- Tullock, G. 1965, *The Politics of Bureaucracy*, Public Affairs Press, Washington, D.C.
- Turnbull, C.S.S. 1975, *Democratising The Wealth of Nations*, The Company Directors' Association, Sydney.
- Turnbull, S. 1990, 'History, types and use of corporate and non-incorporated ownership structures', *Company Directors' Manual*, The Australian Institute of Company Directors, pp3-34, Prentice Hall, Sydney.
- Turnbull, S. 1993, "Improving Corporate Structure and Ethics: A Case for Corporate 'Senates'", *Director's Monthly*, National Association of Company Directors, 17:5, pp1-4, May, Washington D.C.
- Turnbull, S. 1994a 'Competitiveness and Corporate Governance', *Corporate Governance: An International Review*, Blackwell, 2:2. pp90-96, April, Oxford.
- Turnbull, S. 1994b, 'Stakeholder Democracy: Redesigning the Governance of Firms and Bureaucracies', *Journal of Socio-*

- Economics*, JAI Press, 23:3, Fall, pp321-360, Connecticut.
- Turnbull, S. 1994c 'Building a Stakeholder Democracy', *Ambitions for our Future: Australian Views*, Economic Planning Advisory Commission, Australian Government Publishing Service, pp83-90, October, Canberra.
- Turnbull, S. 1995a, 'Best Practice in the Governance of GBEs', *The Australian Public Sector: Pathways to Change in the 1990s*, ed. J. Guthrie, pp99-109, IIR Pty. Limited, Sydney.
- Turnbull, S. 1995b, 'Corporate Governance', *Harvard Business Review*, pp169-170, May-June, 1995.
- Turnbull, S. 1995c, 'Innovations in Corporate Governance: The Mondragón Experience', *Corporate Governance: An International Review*, 3:3, pp167-180, July, Blackwell, Oxford.
- Turnbull, S. 1995d, 'The Need for Stakeholder Councils in Social Audits', *Social & Environmental Accounting*, The Centre for Social and Environmental Accounting Research, 15:2, pp10-13, September, University of Dundee.
- Turnbull, S. 1995e, 'Corporate Governance: What is World Best Practice', *Australian Company Secretary*, Chartered Institute of Company Secretaries in Australia Limited, pp495-491, December, Sydney.
- Turnbull, S. 1997, 'Stakeholder Governance: a cybernetic and property rights analysis', *Corporate Governance: An International Review*, 5:1, pp11-23, January, Blackwell, Oxford.
- Whyte, W.F. & Whyte, K.K. 1988, *Making Mondragón: The Growth and Dynamics of the Worker Co-operative Complex*, ILR Press, Cornell University.
- Williamson, O.E. 1975, *Markets and Hierarchies: Analysis and Anti-trust Implication*, Free Press, New York.
- Williamson, O.E. 1985, *The Economic Institutions of Capitalism*, Free Press, New York.
- Williamson, O.E. 1990, *Industrial Organisation*, Gower House, London.