Humanism in Business

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As the economic, environmental, and social footprints of multinational corporations MNCs have expanded, this influence has become a fact of life in the twenty-first century global economy. For champions of globalization, the rise of the MNC is cause for celebration. Job creation in poor countries, spreading innovation across borders, and building indigenous managerial talent are some of the rewards of MNC activity. For globalization skeptics, the picture, at best, is mixed. In their view, the borderless economy has intensified income disparities across and within countries, favored Northern firms at the expense of local entrepreneurs in part because of global trade rules, and accelerated the destruction of critical marine, forest, and atmospheric ecosystems as the culture of consumerism has fueled relentless demand for goods and services.

Within this unsettled landscape, the question of governance of MNCs has emerged as a pivotal issue among investors, civil society and government, and within MNCs themselves. The incongruity between the continued expansion of MNC scale and influence and the absence of a generally accepted governance framework is becoming increasingly evident. In a world where MNCs collectively are as economically and socially consequential as many national governments, what are the rules of accountability to harness MNC interests such that they serve the long-term public interest?

This core question has spawned a multitude of frameworks, principles, and norms to bring MNCs into alignment with societal expectations, including: the OECD Guidelines for MNCs, the OECD Principles for Corporate Governance, the World Bank's Global Corporate Governance Forum, the UN Global Compact, specialty organizations such as the Global Reporting Initiative (sustainability

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reporting) and AccountAbility (assurance standards), and investor-led initiatives such as the International Corporate Governance Network (corporate governance principles). All of these initiatives, and many more, represent the first wave of efforts to align MNC governance with emerging global norms.

Beginning in 2001, a second wave of governance-related initiatives took shape, spurred by the revelation of governance failures by individual companies such as Enron, WorldCom, Royal Ahold, and Parmalat. These cases largely centered on fraudulent accounting practices, leading to misrepresentations in financial reporting that sent ripples through the investment, employee, and retiree communities. Virtually overnight, tens of billions of dollars of market capitalization evaporated, CEOs and other top executives were dismissed, and governments in North America and Europe scrambled to fashion legislation to prevent future occurrences of such egregious violations of the public trust. The result was a spate of legislative, regulatory, and voluntary initiatives that lead to new standards for internal control systems, auditing, reporting, and oversight of the professional accounting community as well as the expansion of independent directors on corporate boards.

**Beyond containment**

Taken as a whole, it is fair to say that the plethora of corporate governance initiatives during the last decade have achieved significant strides toward containment of harms without altering the fundamental obligations and duties of corporations to broader societal interests. Corporate directors are more vigilant, managers are more attentive, and shareholders are better protected against losses linked to breakdowns in corporate governance.

At the same time that progress in protecting shareholder interests has been achieved, the governance reforms have left intact the fundamental primacy of shareholders as the centerpiece of the “duty of loyalty” exercised by directors and executives. Shareholders remain the only stakeholder with the power to elect directors and bring lawsuits against corporations for violations of fiduciary duty, i.e. failure of the organization to protect shareholder interests. Requirements for independent directors, mandatory assessment of internal control systems, audits, and virtually every other component
of pre- and post-Enron governance reforms reinforce the core doctrine of contemporary governance; that is, the interests of capital providers trump the interests of all other constituencies of the corporation. While cursory reference to employees, communities, the environment, and other stakeholders may appear in voluntary governance principles such as those promulgated by the International Corporate Governance Network (ICGN) and OECD, such principles and norms leave no doubt whose interests are paramount when directors and management make decisions. This is the case as much for capital allocation and mergers and acquisitions decisions as it is for cost and asset management and share buy-back and dividend payments.

To be sure, containment of harms through stronger controls against accounting and reporting misconduct is not without its benefit to stakeholders other than shareholders. The last decade has witnessed enormous costs to employees (who themselves are often shareholders) in terms of lost jobs, pensioners whose retirement funds suddenly evaporate, and communities whose social fabric is torn apart by abrupt plant and office closures. It is no coincidence that pension funds have been among the most aggressive champions of higher governance standards. Their beneficiaries wear multiple hats – they may simultaneously be shareholders, employees (active or retired), and members of the community.

Few would question that corporate governance today, just a few years after the dramatic misconduct and, in some cases, financial collapse of a number of US and European companies, has achieved significant improvements from the investor standpoint. But far less clear is whether such progress has been achieved in aligning governance structures with twenty-first-century societal needs and expectations of all stakeholders with legitimate claims on the conduct and performance of the firm.

The scale, complexity, and reach of MNCs is transforming the corporation from an entity of primarily localized consequences to one whose impacts are felt transnationally. Yet despite this shift from the local to the transnational, the fundamentals of governance norms remain remarkably stable, seemingly stuck in frameworks that bear less and less relevance to contemporary global realities. Changes that have occurred, e.g. in the number of independent directors, the role of audit committees, and the implementation of new standards for internal control systems, fall well short of altering the core
accountability relationships between the corporation and its stakeholders. If governance norms are going to continue to evolve and align with twenty-first-century expectations, then future changes must become more systemic than those witnessed in the last few years. And the critical dimension of such systemic shifts is democratic control: the empowerment of all stakeholders with legitimate interests in the enterprise to exercise influence over key decisions of the enterprise which affect their lives.

Why democratize governance?

Democracy signifies accountability of an institution to those affected by its actions. In democratic nations, citizens hold their elected authorities accountable for providing goods and services, e.g. legal and regulatory structures to ensure public order and justice, physical infrastructure in the form of roads and canals, public education and health systems, and relations with other nations to create fair global trade and security. Public officials through the electoral process are periodically judged on their success in meeting citizen expectations. When they fail, they are replaced. When they succeed, they are re-elected.

The principles of political democracy applied to the corporation should yield comparable accountability. Since the corporation is granted its license to exist by sovereign governments, it should be held, subject to reasonable adjustments for its commercial character, to the same standards of accountability as political democracies – standards that hold it accountable to all parties with a legitimate stake in its activities. However, to adopt such a perspective, as we do in this article, requires departure from conventional wisdom, which defines the corporation in terms of property – owned, controlled, and accountable only to shareholders. This property-centric view of the corporation is the pillar of corporate law, regulation, and practice (Greenfield 2007). It is not, however, intrinsic to the concept of the corporation. Instead, the corporation-as-property view is the outcome of centuries of historical domination of capital owners (originally land, now financial capital) in the evolution of global economic systems and institutions (Kelly 2002).

Loosening the property-centric definition of the corporation opens up an array of alternatives that, many would argue, more aptly
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describe how corporations do and should behave in a globalizing economy. One such alternative is the concept of the corporation as a "team production" entity, comprising a group of individuals linked to others through complex supply networks, all of whom contribute jointly and inseparably to the wealth-creation process (Blair and Stout 1999). Another alternative, a variant on the team production concept, is the corporation as a community of individuals and institutions—workers, communities, suppliers, customers—who contribute various types of assets to the organization for the purpose of creating goods and services (Post et al. 2002). Still another alternative is the corporation as a living organism, given life by the convergence of human, natural, and financial capital, evolutionary from early-stage formation to mature organization and capable of reorganizing, reinventing, and refocusing its activities using the human intelligence of its constituents as external opportunities and threats come and go.

All of these alternatives to the property-centric definition share common roots in the notion of multiple resource providers as the essence that enables corporations to create wealth. Figure 13.1 depicts the various contributions of different resource providers to the corporation and to the wealth-creation process.

Eight parties, often referred to as "stakeholders," provide different types of resources, all of which are essential to the corporation's existence, operations and prosperity (White 2006a). For example, shareholders and lenders provide financial capital that helps transform labor, natural capital, and technology into the production of goods and services. Employees provide human capital, unions provide workforce liaison, and governments contribute a stable and predictable legal/regulatory infrastructure. Customers provide markets and, over time, brand loyalty and reputation to the organization. Communities provide a local license to operate, as well as access to air, water, and land resources. Suppliers are providers of networks and technologies essential to the corporation's own production activities.

Finally, future generations lend common assets to the corporation for temporary use, much like communities do on a shorter-term basis. Biodiversity, clean air and water, and productive land are "common assets" inherited by present generations with the understanding that contemporary users will be stewards of such assets, protective of both their quality and quantity, such that the stock is preserved for future generations (Barnes 2006). The corporation that exploits and
undermines a common asset is, in effect, a delinquent borrower. Such is the case, for example, of those that have produced carbon emissions for generations which now threaten to undo climate stability owed to future generations.

In exchange for the resources provided, each party merits a return to its contribution (Figure 13.2). As in the case of resource providers, returns vary with regard to type and value. Future generations expect the firm to act as a trustee of the environmental resources, leaving the stock of resources undiminished. Shareowners expect dividends and growth in share price. Employees expect, at minimum, wages and benefits commensurate with their contribution. Unions expect a safe working environment and a place at the negotiating table. For governments, taxes and compliance with the law constitute some of the expected returns. Customers expect quality goods and services, while communities expect taxes, jobs for residents, and an uncompromised natural environment. For suppliers, long-term relationships that produce a steady revenue stream and timely payment of invoices are anticipated returns.
Framing the corporation as the beneficiary of multiple resource providers opens new horizons for the role of democratic governance. Seeing the organization through the lens of multiple contributors to wealth creation repositions shareholders as one among many worthy recipients of the residual. It suggests that “stakes, not shares” (Cowe 2001) is the appropriate paradigm through which we view corporate accountability. Why, one may ask, are shareholders the sole stakeholder group to elect corporate directors and to bring lawsuits in cases of alleged breach of fiduciary duty? Indeed, why is fiduciary duty of directors defined, either *de jure* or *de facto*, as a duty of loyalty only to shareholders?

Once these property- and shareholder-centric strictures are removed, democratization becomes not only possible, but compelling. If the corporation is conceived as a team production entity, a community of individuals or a living organism, then control of its activities logically expand from the few to the many, from the capital providers and their agents – directors and managers – to the full array of legitimate claimants, ranging from employees and communities to suppliers and future generations. The licensing function of the state as a basis for
democratic control is amplified by the reality that all corporations, and especially MNCs, are social entities with complex economic, ecological, and social footprints. This reality is the foundation for shifting from shares to stakes, and from shareholder-centric to stakeholder-based forms of corporate oversight, governance, and accountability.

**Unbundling democratization**

Bringing democratic principles to the corporation may occur along multiple pathways, not only through strengthening stakeholder influence and/or control of the organization. Democratization of ownership, for example, is a form of economic democratization, and employee ownership is one of the most prominent examples of this concept. Distributing shares among employees has occurred in countries and regions as diverse as Britain, Chile, Egypt, Jamaica, the United States, Zimbabwe, Central and Eastern Europe, the former Soviet Union, and the People’s Republic of China (Groban 2001). An estimated 10,000 employee stock option plans (ESOPs) are operative worldwide, and an estimated 15 percent of public companies in the US, with a disproportionate concentration in the technology sector, offer employees ESOPs. However, the vast majority of ESOPs in the US are found in unlisted companies; majority employee ownership structures among publicly traded companies are still highly exceptional (Gates 1998).

Among ESOPs, a small fraction – probably less than 10 percent – are entirely employee-owned. In many of these cases, economic democratization was not firmly implemented during the creation of the organization, but evolved slowly over time. Gradualism is common because the responsibilities and duties of ownership are learned skills that require nurturing among those not accustomed to stewardship responsibilities. For the last two centuries, as corporations have become increasingly complex and reliant on passive investors to meet capital needs, shareowners (some would say share-renters) have become increasingly detached from the organizations whose stock they hold. Though its consequences are largely adverse to workers, the

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2 I use the terms “democratization of the corporation” and “stakeholder governance” interchangeably while recognizing that the former is an outcome and the latter is a means toward that end.
notion that capital rents labor is one of the most enduring and deeply ingrained conventional wisdoms in modern management theory and practice. The result is the entrenchment of the work-for-paycheck mentality as opposed to work-as-investment mentality.

ESOPs are not the only form of economic democratization of corporations. Of equal or greater importance is the rise of the “new capitalists” (Davis et al. 2006), or individuals who assign their assets to institutional investors such as pension and mutual funds. The resources represented by these pooled assets are vast. In the US, the top 1,000 pension funds control US$5 trillion. The largest among these, including California, New York, and Florida public employee pension funds, each controls over $100 billion. Similarly in Europe, the Dutch ABP, the Danish ATP, and the UK telecommunications and mineworkers represent tens of billions of euros in assets. Overall, more than half of all equity holdings are in the hands of these large institutional investors, whose assets represent the accumulated wealth of millions of actual or eventual retirees.

This dramatic shift from highly concentrated ownership of corporate shares by a few wealthy individuals to a highly dispersed pattern of ownership is a phenomenon of the last three decades. It represents a sea change in ownership patterns and, with it, the empowerment of individuals to influence behavior of corporations in which they hold shares. It is having, in other words, a profound effect on corporate governance by giving voice to the multitude of citizen investors who are demanding a say in how the corporation is run.

The mechanisms by which this influence is wielded vary across countries and companies, but in general, all are intensifying as citizen investors become increasingly emboldened to seek change in boards or management. Shareholder resolutions in the US on issues such as climate change and employee diversity occur by the score every year, spearheaded by investor activists led by groups both ad hoc (e.g. groups of shareowners within companies) and permanent (e.g. issue-focused civil society groups and faith-based organizations concerned with human rights or labor practices). In recent years, such activism has been fueled by investor displeasure with certain conduct – e.g. soaring executive compensation or backdating stock options to maximize payouts to executives – reminiscent of the Enron-era ethical lapses.
In short, from the perspective of shareholder democracy, the age of citizen-investor activism is gradually democratizing the corporation by introducing new forms of accountability between shareholders, boards, and managers. While progress is impressive, many changes that would deepen shareholder democracy have yet to occur (Ray 2005). These include, for example: making board positions competitive by having two candidates for each vacant position; enabling investors and employees to co-nominate candidates for board positions; and creating a mechanism for full disclosure as well as for input to and/or approval of executive compensation by shareholders.

Most changes of this nature represent steps in the direction of shareholder democracy. But shareholder democracy must not be confused with stakeholder governance, a transformation of corporate accountability more fundamental – and more threatening to the status quo – than measures focused on strengthening the rights of shareholders.

Toward deeper democratization

Democratizing the corporation beyond the boundaries of shareholder-centric governance reforms toward stakeholder governance does not come easily to the contemporary MNC. Neither prevailing management nor governance culture creates a propitious environment for bringing diverse voices and perspectives into the decision-making process.

On the management side, traditional perspectives become entrenched early on in a manager’s career owing to mainstream business education that schools managers in a certain organizational mindset. Within this traditional framework, the task of management is to establish the optimal hierarchical structure by which a company’s leadership retains most decision-making authority and mid- and lower-level employees are agents for implementing such decisions. Underlying this perspective is a worldview deeply rooted in the belief that employees must be controlled and supervisors must be constantly vigilant to ensure they are properly executing the dictates from above (Ghoshal 2005). The enduring impact of such beliefs sustains what Senge and colleagues call “machine age” concepts: control, predictability, standardization, and “faster is better,” even as such concepts are largely responsible for disharmony between modern,
growth-at-any-cost corporate culture and "the need of all living systems to evolve" (Senge et al. 2004).

On the side of corporate boards, practices are changing in the wake of the Enron-era scandals. Indeed, more than a decade before Enron, there were calls for changes in corporate boards. Authoritative sources concluded that board composition and duties were misaligned with the realities of the modern corporation. On the basis of interviews with nearly 1,000 corporate directors in the late 1980s, Harvard Business School Professor Jay W. Lorsch observed:

Corporations exist to provide more than a return to their owners – they also provide goods and services, and employment, which in turn produces taxpayers and contributes to the nation’s economic well-being. Their conduct affects a wide range of national interests ... it makes no sense to instruct their governors to rule only for investors, especially now when so many investors are short term institutional holders ... Thus, we believe that wider adoption of broad-constituency laws would reduce the ambiguity facing directors. (Lorsch 1989)

Despite such calls for enlarging the range of constituencies to which directors are accountable, remarkably little has changed either in law or practice (Springer 1999). At the turn of the twenty-first century, governance reforms that followed the Enron scandal made some inroads in democratizing boards with regard to mandating a higher proportion of independent directors. Independence, it was assumed, would strengthen the arms length relationship between directors and top executives such that the corporation’s financial affairs would be scrutinized more systematically and without undue influence on the part of executives. The audit and control measures introduced by the Sarbanes-Oxley legislation (“SOX”) of 2002 intensified pressure on boards to sharpen their duty of care in overseeing the financial affairs of the organization.

But for all the attention given to SOX, the law has had minimal effect on democratizing either the election or behavior of corporate directors. Election rules in most corporations still decidedly favor nominees of the board and management rather than shareholders, who in most cases may not vote “no,” but, rather, may only abstain or vote “yes” to candidates on the ballot. Access to board members is normally tightly controlled and often limited to perfunctory interaction with shareholders at the annual general meeting. Thus, despite
the rhetoric, progress toward at least shareholder democracy – much less stakeholder democracy – has been remarkably slow (Minnow 2006). This successful resistance of boards and management to even narrowly construed shareholder democracy attests to how deeply entrenched power structures are in the American corporate governance culture.

Prototypes for the future

Changing boards is not the only pathway toward corporate democratization. Already, though rarely couched in terms of democratization, a number of mechanisms provide access for different stakeholders to weigh in on key decisions of the corporation. In the chemical industry, for two decades Community Advisory Panels (CAPs) provided advice to facilities in managing local environmental, economic, and social issues associated with plant operations. Though lacking legal muscle, CAPs have become an example of best practice in the international chemical industry.

In the US electric utility industry, most states have mechanisms for public – especially consumer and community – input into major decisions regarding electricity rates and the siting of new generation facilities. For example, Offices of Consumer Advocates have long challenged utility companies to justify rate increases proposed to the Public Utility Commissions of various states. Facility Siting Councils play a parallel role by providing access for community interests in major new facility development projects. Though electricity deregulation has tended to weaken the role of Consumer Advocates and Siting Councils, they remain among the few instruments for non-shareholder influence in the pricing and capital investment decisions of energy companies.

While institutional arrangements such as those mentioned above are longstanding and moderately consequential in terms of introducing stakeholder interests into corporate decision-making, they fall far short of the deeper changes in management and governance that are preconditions for serious democratization of the corporation. To achieve this objective, one must imagine substantially modified or even entirely different accountability structures than those characteristic of the contemporary corporation. Some organizations have begun to move in this direction (Cramer and Hirschland 2006). Board
committees on public policy and social/environmental issues are becoming increasingly commonplace, as in the cases of MNCs such as Merck, Rio Tinto, and McDonald's. An estimated 20 percent of the Standard and Poor's 500 companies have some type of committee of this nature. In a similar vein, British American Tobacco, General Mills, and Unilever disperse oversight of corporate responsibility across a number of directors, typically those identified as “independent.”

While these developments represent modest steps toward broader accountability, deeper changes in the fiduciary duty, election, and composition of boards await a next wave of governance reforms. To illustrate, consider three prototype board structures for the future (White 2006b). These prototypes, depicted in Figure 13.3, are simplified portraits of the possible, designed to draw reasonably clear distinctions between each other and the present board. As a benchmark, assume the generic present board (Prototype 1) comprises 10 members operating under conventional rules of fiduciary duty in which shareholder interests are pre-eminent. It is a self-perpetuating board, with a nominating committee that selects candidates to succeed
departing members, and shareholders vote on the proposed slate. The extent of direct nominations new board members may make varies by country, but in no case are explicit competencies or representation of other stakeholder interests incorporated in the selection process.

Prototype 2, the capacitated board, depicts a modest but noteworthy step in the direction of stakeholder governance. Here the contemporary rules of governance remain unchanged in terms of the rules of fiduciary duty. The capacitated board is formally trained and credentialed in relation to stakeholder issues such as environment, human rights, labor standards, and sustainability reporting. In this scenario, business groups, associations of corporate directors, and academic institutions that already offer board training have expanded their offerings to include the standard menu of corporate responsibility topics. Such training has emerged as a standard practice based on the generally accepted belief that corporate directors – no less than physicians, accountants, pilots, and educators – should be held to a standard of professional competency in their role as corporate directors. Training institutions offer various levels of credentials. Directors of MNCs are required to obtain the highest level of certification; those who serve smaller enterprises are held to a somewhat less demanding standard. In all cases, maintaining one’s credential requires periodic updating of competencies in corporate responsibility.

Prototype 3, the reconstituted board, is a more aggressive step toward stakeholder governance. Here, three key changes have occurred relative to the current board. First, multilateral and national governance principles have evolved to the point where parity between shareholder and non-shareholder interests is universally recognized as a best practice. The rules of governance, both mandatory and voluntary, share language that asserts that the purpose of corporations is to serve the public interest by harnessing the private interests in growth, innovation, and wealth generation.

Second, reflecting this revised mandate, the board in this scenario is split between those with backgrounds and competencies in shareholder matters versus those with backgrounds and competencies in various aspects of environment, social issues, and governance. The duty of both clusters is the same – to promote the corporation’s capacity to produce long-term wealth – and the composition of the reconstituted board mirrors this new mandate.
Third, the method for board selection has been democratized. Mechanisms for direct election by various stakeholder groups are now in place, replacing the earlier indirect and incumbent-dominated system in which slates of nominees were put forward by existing board members and shareholders were asked to either approve or abstain. The combination of a redefined corporate purpose, a reconstituted board, and new procedures for board selection represents a substantial advancement in changing the rules of accountability to bring greater democratic control to the organization.

Prototype 4, the bi-cameral board, rests on the same assumptions as the reconstituted board, except in this case power is divided into shareholder and stakeholder chambers. In this scenario, the shareholder chamber is similar to the conventional board, with some combination of audit, ethics, compensation, and strategy committees. The stakeholder chamber, in contrast, has the explicit mandate to identify and advocate for the interests of non-shareholders.

The preferred outcome, over time, is a convergence of the shareholder and non-shareholder interests based on the principle of "enlightened shareholder interest." This concept posits that shareholders' long-term interests are best protected when the corporation integrates stakeholder interests into its decision-making, thereby strengthening reputation, reducing risks, and identifying commercial opportunities through continuous dialogue with stakeholder groups. However, recognizing that the preferred outcome may not materialize, a standing mediatory body adjudicates disagreements between the chambers when major decisions are under review and consensus cannot be achieved, e.g. an acquisition or merger that benefits shareholders but occasions major disruptions in the workplace and community. The bi-cameral board configuration relies on checks and balances in much the same way that political democracies do. The mediatory body is analogous to the judicial branch, in this case, as an adjudicator of shareholder and non-shareholder interests when they cannot be reconciled by the two chambers of the board.

All three alternatives to the current board - capacitated, reconstituted, and bi-cameral - have their strengths and limitations, and the implementation of each would vary widely in terms of complexity and transaction costs. The capacitated board represents the most modest departure from current practice - capacity building of board members already is commonplace in many countries. Prototype 2 would build
on these practices by introducing social and environmental content into such training and formalizing the process through a credentialing mechanism.

Reconstituting boards requires a combination of changes in fiduciary duty, board selection, and board composition. Together, they represent a dramatic departure, not from who serves on boards, but from the definition of directors’ duty of loyalty. It represents a departure from shareholder-centric fiduciary rules, and reconfigures accountability by ensuring the presence of non-shareholder voices.

Finally, the bi-cameral board is most likely to produce high transaction costs, as any checks-and-balances structure tends to do. It is an approach that connotes skepticism that a unitary board, no matter how diverse and how democratically elected, can ever escape the pressure of top management to weight decisions in favor of shareholders. Its message is that the higher transaction costs of a bi-cameral structure is an acceptable, reasonable price to pay for ensuring that stakeholder interests are elevated securely and unequivocally to a level equal to that of shareholder interests. It may be a “messy” structure, but no less so than other structures seriously committed to democratic process.

Reflections

Turbulent times lie ahead for global corporations. Continuation of the momentum toward open markets driven by breakthroughs in communications and information technology and free movement of capital and technology markets is by no means assured during the coming decades (Abdelal and Segal 2007). Persistent protectionism of agricultural goods, sluggish progress in international trade negotiations, growing barriers to transboundary movement of labor, and deepening resource nationalism all loom large as potential blockages to free markets that have yielded enormous benefits to MNCs. The public appetite for unfettered globalization may be waning with the perception that its benefits are inequitably concentrated in the hands of corporate and financial interests while its costs are inequitably concentrated among the world’s most vulnerable people.

It is these conditions that give urgency to the question of democratization of the corporation. If the MNCs are to prosper in the new century, they must move beyond traditional shareholder-centric
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To date, governance initiatives undertaken by multilateral organizations such as OECD, national governments, e.g. US SOX and the UK Company Law Review, and coalitions such as ICGN have demonstrated remarkably little readiness to move beyond the dominant shareholderism as the central organizing framework for corporate governance. Indeed, by focusing on marginal improvements without revisiting core tenets, such initiatives have further ingrained the very flaws in the prevailing governance models that make them increasingly misaligned with societal expectations.

This must change if corporations are to build public trust for the long term. Fortunately, the case for democratization of the corporation is compelling on three fronts: ethical, political, and economic. From an ethical perspective, shareholder-centric governance is incompatible with the notion that a multiplicity of resource providers enables the corporation to succeed in a globalizing world. To subordinate the interests of employees, communities, suppliers, future generations, and other stakeholders is a violation of the principle of fairness as applied to corporate activity. Those that contribute to wealth creation should have a voice in the governance of the organization that depends on such stakeholders for its wealth-creating capacity.

From a political perspective, democratization is integral to obtaining and maintaining the license to operate. Corporations that empower stakeholders make a statement to national and local authorities that they understand their existence is part of a social contract that is more encompassing than the legal document that grants such license. Corporations that assign real authority to community panels at their operating sites, that seriously involve employees in merger and acquisition decisions, and that allocate stock to community environmental trust funds demonstrate in a concrete form their commitment to the principles of democratic decision-making. Such commitment, in turn, strengthens their legitimacy in the eyes of those empowered to grant their license to operate.

From a business case perspective, the rewards of transitioning toward stakeholder governance lie in both risk management and opportunity exploitation. In an increasingly borderless world, diversity associated with stakeholder governance elevates the capacity of boards and management to see the world through the lens of the
customers and communities they serve. The capacity of corporations to anticipate social changes material to their operations is as indispensable to risk management as it is to identifying new technologies and markets. Stakeholder engagement is a step in this direction. Stakeholder governance goes further. It is a recognition that business-relevant knowledge is possessed not by a few experts within the confines of the organization but by stakeholders that span a broad array of constituencies and geographies. By bringing such knowledge-holders into the governance structure, the organization positions itself to access on a continuing basis the best ideas that build the foundation for long-term prosperity.

Peter Senge and his colleagues have observed that any life form, including corporations, has the potential to grow, learn, and evolve. “As long as our system is governed by habit . . . we will continue to re-create institutions as they have been, despite their disharmony with the larger world” (Senge et al. 2004: 9).

Democratizing the corporation promises a different future. Whether through the voluntary actions of corporations themselves or mandatory actions imposed by governments, transitioning to stakeholder governance will help end the “disharmony” that stands in the way of corporations reaching their full potential as agents of sustainable development. In the end, this above all is the most compelling reason for pursuing the pathway toward democratization.

References
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