Decades ahead of her time: advancing stakeholder theory through the ideas of Mary Parker Follett

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Abstract *Though the work of Mary Parker Follett predates the field of stakeholder theory by almost 60 years, and no reference to her work is found in the stakeholder literature, many of the tenets of stakeholder theory echo Follett's ideas precisely. More importantly, Follett's work yields a much richer foundation for stakeholder theory, as well as providing direction for its advancement. The article traces both the similarities and differences between Follett's work and that of contemporary stakeholder theorists, and shows how Follett's ideas can be used to enhance our current understanding of the theory and improve its implementation.*

When Mary Parker Follett published *The New State* in 1918, she challenged the prevailing political thought of the era by charging that the true man existed only his connectedness to the world around him[1]; that the self, was actually defined by its interdependencies with the group[2]. Follett showed how this premise had significant implications at both a macro and micro level. At the macro level this connectedness should influence the way that governments and political systems are structured. At the micro level, this connectedness has implications for how individuals and groups should perceive and interact with each other. She also extended this work to business organizations, pointing out how the structure, management and even the very purpose of the firm could be redefined to better reflect this interconnectedness, and enable the business to better fulfill its role in society. Follett sought a new social paradigm that was based on cooperation, rather than competition, and believed that through this cooperation organizations would achieve greater effectiveness, individuals would achieve greater satisfaction with their lives, and society as a whole would achieve greater welfare.

The similarities between Follett's ideas and many of the ideas being put forth in stakeholder theory (a contemporary management theory) are startling. Follett's work predated the field known as stakeholder theory by roughly 60

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years, yet while no reference to Follett is found in the stakeholder literature, many of its tenets closely reflect Follett's ideas. However, it is not only Follett's prescience that is of interest; Follett's work also enhances our understanding of stakeholder theory through a richer development of its philosophical underpinnings. Furthermore, Follett's work can be used to address an area of stakeholder theory that has been critically weak until now: its implementation. The article begins by giving an overview of the current field of stakeholder theory. It then addresses several areas where Follett's work can improve our understanding of stakeholder theory. Then, building on these ideas, the article demonstrates the implications of Follett's work for implementing stakeholder theory in organizations.

Stakeholder theory

Stakeholder theory has been proposed as an integrative framework for the field of business and society, or more broadly, as a theory of the firm (Donaldson and Preston, 1995; Evan and Freeman, 1988; Freeman, 1984; Jones, 1995a). Freeman is generally credited with introducing stakeholder theory in 1984, with his book, *Strategic Management: A Stakeholder Approach*. In that work, as well as later works (e.g. Evan and Freeman, 1988; Freeman and Evan, 1990; Freeman and Gilbert, 1988), Freeman argues that the firm exists for the purpose of serving stakeholder interests. Evan and Freeman indicate that this purpose is often overlooked, and state, "A stakeholder theory of the firm must redefine the purpose of the firm ... The very purpose of the firm is, in our view, to serve as a vehicle for coordinating stakeholder interests" (1993, pp. 102-3).

Stakeholders are those individuals or groups that have a "stake" in the firm (Caroll, 1993, p. 22). They have been defined in a number of ways, including: those individuals with explicit or implicit contracts with the firm (Donaldson and Preston, 1995); "any group or individual who can affect or is affected by the achievement of an organization's purpose" (Freeman, 1984, p. 52); those with a legitimate claim on the firm (Hill and Jones, 1992), and in a variety of other, similar ways. In general there is a consensus that stakeholders often include customers, employees, management, stockholders, creditors, suppliers, community, and sometimes even competitors[3].

The magnitude of stakes

Stakeholders may vary with respect to the degree of importance they place on their own stake, the degree of importance management places on their stake, and also with respect to the amount of power the stakeholder has with management (Hill and Jones, 1992). There is some disagreement in the field as to whether the variance in these factors also implies that different stakeholders should be treated with different levels of priority. Caroll implies that those stakeholders with more power and legitimacy require more attention (Starik, 1994). However, according to Donaldson and Preston (1995, p. 68), most stakeholder analysts "argue that all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no *prima facie* priority of one set of interests and benefits over another". Evan and Freeman (1988) also state, "The stakeholder theory does not give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of another" (p. 314)[4].

Stakeholders versus stockholders

This view of business differs markedly from traditional management paradigms in which profit is the most important (if not the only) reason for the firm's existence and in which the shareholder is the primary (if not only) stakeholder which is considered. Most management theories have centered on the firm's responsibility to its stockholders, with some degree of duty owed to employees or customers. It has even been argued that for the firm to pursue interests other than maximizing profit results in "taxation without representation" (Friedman, 1970). As the argument goes, to the extent that the firm engages in activities which do not maximize profit, higher prices are passed on to consumers which amounts to a tax, and since the public is not represented in the decision to pass this tax, it is unfair and socially irresponsible.

Implicit in this argument is the assumption that through maximizing profit in a competitive industry, the firm will pursue greater economic efficiency and consumers will reap the rewards – thus increasing social welfare. However, the argument breaks down when this assumption is relaxed. Markets are not perfectly competitive and not all goods are priced. Monopolies, information asymmetries and externalities are all examples of situations in which maximizing profit does not necessarily result in maximizing social welfare (Arrow, 1973). There is a vast body of research that has been directed at developing controls to ensure that the firm behaves responsibly; however, stakeholder theory takes a somewhat different approach. Stakeholder theory is not so much about controls to ensure socially responsible behavior as it is a different perspective of the *purpose* of the firm. While the role of external controls is recognized (for example, institutional structures as discussed by Hill and Jones, 1992), the primary emphasis of stakeholder theory is a recognition that the firm is a part of a system of interdependencies, or implicit contracts or agreements, and that share-owners are but one small constituency group among a plethora of constituency groups to be served. Since the firm exists to serve stakeholders, financial performance is only a very small slice of a firm's total performance. Corporations are "human institutions" (Freeman and Gilbert, 1988), composed of people, by people, and for people. If the firm fails to meet the needs of its stakeholders, it ceases to exist (Clarkson, 1995).

Empirical, instrumental, and normative justifications of stakeholder theory

The stakeholder theory is still evolving, and its boundaries are yet fuzzy. It has been justified on descriptive, instrumental and normative grounds (Donaldson and Preston, 1994, 1995; Jones, 1995a). The descriptive justifications aim to show that observed reality corresponds to stakeholder principles – that is, it is an empirical fact that the firm is a nexus of relationships between individuals who seek employment, other companies that seek to sell their goods to the firm, customers who wish to buy products from the firm, stockholders who want their investment in the firm accrue returns, creditors who want the firm to repay principle and interest, and community interests who desire the firm to behave in community-benefiting ways. Instrumental justifications center on showing that managing according to stakeholder principles will lead to higher corporate performance according to traditional measures (financial performance). Freeman (1984) points out that we must consider how stakeholder theory will influence "… how organizations can succeed in the current and future business environment" (p. 24). Hill and Jones (1992) and Jones (1995a, 1995b) more explicitly put forth a number of propositions about how managing according to stakeholder principles can reduce transaction costs and create competitive advantage for both firms and individuals. Normative justifications draw on the moral imperatives of treating individuals with respect (Freeman and Gilbert, 1988; Evan and Freeman, 1988) or more general property rights (Donaldson and Preston, 1995). The normative aspect yields prescriptions for how management *should* perceive, respond to and evaluate its performance in meeting the objectives of each of these stakeholder groups.

Follett's ideas contribute to each of these aspects of stakeholder theory. On the descriptive side, her work on the interrelatedness of systems (Follett, 1940f) and circular response (Follett, 1924, 1940a) are very useful in understanding the way the firm's actions towards any single stakeholder group affect the whole system and elicit feedback effects to the firm. Combining this work with Follett's ideas about integration (Follett, 1940a, 1940c), and participation (Follett, 1918, 1940f) contributes to the normative and instrumental aspects of stakeholder theory by giving us direction as to how the firm *should* manage its relationships with stakeholder groups to both increase our happiness and fulfillment, and make the firm more successful.

The individual, the organization, and the environment as an interdependent system

> But there is no way of separating individuals, they coalesce and coalesce, they are "confluent", to use the expression of James, who tells us that the chasm between men is an individualistic fiction, that we are surrounded by fringes, that these overlap and that by means of these I join with others (Follett, 1918, p. 60).

Follett explains that it is impossible to separate the individual from society; each is a part of the other and each are endlessly recreating each other:

> The individual is the unification of a multiplied variety of reactions. But the individual does not react to society. The interplay constitutes both society on the one hand and individuality on the other: individuality and society are evolving together from this constant and complex action and reaction … each has no value, nor existence without the other (1918, p. 61).

and,

> Interpenetrating of psychic forces create at the same time individuals and society, that therefore, the individual is not a unit but a center of forces (both centripetal and centrifugal), and consequently society is not a collection of units but a complex of radiating and converging, crossing and recrossing energies (1918, p. 75).

So too is business a part of society – it does not exist as a separable entity. It exists because of society, and its nature has been shaped by society. The organization is part of a larger system of interdependencies. Preston and Post (1975, pp. 26-7) describe an interpenetrating systems model for business and society that mirrors Follett's arguments almost identically:

> By contrast, the interpenetrating systems model can accommodate both the separateness and possible conflict of managerial and societal goals, on the one hand, and the process of managerial/societal goal adjustment on the other. Society may take into account and seek to influence the goals of managerial units; and they, in turn, may take into account and seek to influence those of society at large. Neither are the two systems completely separate and independent nor does either control the other; their relationship is better described in terms of interpenetration.

Buchholz's work adds to this by stating:

> Corporations have to take the perspective of the society as a whole and incorporate the standards and authority of society, even as they remain a unique center of activity that has a creative dimension to add to the total social experience. The corporation thus incorporates both the conformity of society's perspective and creativity of its unique individual perspective. A society is constituted by the dynamics of adjustment between the corporation and the generalized other as reflected in social expectations, which involves an accommodation in which each creatively affects and is affected by the other through accepted organs of adjudication (1996, p. 454).

Follett extends these ideas further by pointing out that not only do the constituents of a system engage in reciprocally adjusting activities, but these activities change the other constituents, as well as the whole. As Follett notes:

> Through circular response, we are creating each other all the time ... The most fundamental thought about all this is that reaction is always reaction to a relating ... In human relations, as I have said, this is obvious: I never react to you but to you-plus-me; or to be more accurate, it is I-plus-you reacting to you-plus-me. "I" can never influence "you" because you have already influenced me; that is, in the very process of meeting, by the very process of meeting, we both become something different. It begins even before we meet, in the anticipation of meeting (Follett, 1924, pp. 62-3).

In other works she adds:

> In every situation our own activity is part of the cause of our activity. We respond to stimuli which we have helped to make (1940a, p. 194).

> The members of a group are reciprocally conditioning forces none of which acts as it would act if any one member were different or absent (1918, p. 31).

Relating these ideas back to the current conceptualization of stakeholder theory, this means that any interaction with a stakeholder group, is very unlikely to be a *unidirectional* action. The way the firm deals with a stakeholder group will influence the way the stakeholder group deals with the firm, which in turn influences the future behavior of the firm to the stakeholder group in a self-perpetuating cycle. Furthermore, the way the firm interacts with a stakeholder group (for example, the community) will also impact the way other stakeholder groups (for example, employees, environmental rights groups, suppliers, customers) interact with the firm, which in turn influences the future options available to the firm in interacting with these stakeholder groups.

This implies that the firm's interactions with its stakeholder groups are characterized by path dependency and non-linearity. While an in-depth discussion of non-linear dynamics is beyond the scope of this paper, the point that should now be clear is that the firm cannot *choose* those stakeholder groups with which it interacts[5]. It will interact with them all, directly or indirectly, *whether it wants to or not*. Furthermore, the way in which the firm interacts with the stakeholder groups will necessarily constrain or enable future choices available to the firm. Follett might argue that the most successful company, then, is the one which recognizes its own system of interdependencies, studies the web of relations among its stakeholder groups, and works to integrate their interests (Follett, 1920).

Stakeholder theory as a subset of interpenetrating systems theory

Buchholz (1996, p. 448), citing an article by Wicks *et al.* (1994), points out that some of the definitions embedded within stakeholder theory may be inconsistent with this notion of interpenetrating systems:

> One of the assumptions in this worldview is that the "self" is fundamentally isolable from other selves and from its larger context. Persons exist as discrete beings who are captured independent of the relationships they have with others. While language, community, and relationships all affect the self, they are seen as external to and bounded off from the individual who is both autonomous from and ontologically prior to these elements of context. The parallel in business is that the corporation is best seen as an autonomous agent, separate from its suppliers, consumers, external environment, etc. Here too, while the larger market forces and business environment have a large impact on a given firm, it is nonetheless the individual corporation which has prominence in discussions about strategy and preeminence in where we locate agency.

However, it is argued here that it is not only possible to reconcile stakeholder theory with interpenetrating systems theory, but that stakeholder theory may be seen as a subset of interpenetrating systems theory. If we begin with the premise that we are each a part of a larger whole, influencing each other, creating each other, and inseparable from each other, we are still able to observe that we may be interacting with some parts of the system more intensely or more frequently than with others. Furthermore, the nature of our connection to each other or the whole may vary depending on which relationships we examine. For instance, by virtue of my existence I help to create my family which also helps to create me. Neither exists the same in absence of the other. At the same time, by existing I also help to create my neighborhood, my workplace, my nation, etc., and they also play their roles in creating what I am. However, the nature of these different relationships, and the mechanisms by which we relate, vary depending on which relationships are considered. An analogy may be drawn to the nerves in an organism: The nerves cannot function apart from the body, nor does the body function apart from the nerves; however, each nerve is closer to some ganglia than others, and sends impulses which will shape the response of some adjacent nerves more than others. The function of each nerve may be slightly different, each contributing the value of their experience to the whole through a number of pathways.

Each individual is also helping to create the whole of society (and being mutually created by society) via a number of pathways, and the firm may be one such pathway. If we conceive of the firm as a "legal fiction" that is a locus of our involvement with a group of others, we may use the term "stakeholders" to identify those others with which we are most closely interrelating by means of the firm. This is aptly captured by Freeman's definition of the firm as a "vehicle" for coordinating stakeholder interests[6]. The firm itself is not a stakeholder; it is a ganglion of stakeholders. However, this points out one of the problems of stakeholder theory: defining the boundaries of the firm and which stakeholders to attend to. Just as each ganglion has a radius of nerves which directly interact with each other, but which also rely on more distal nerves to provide impulses and relay information, the firm is a locus for a radius of stakeholders that may be forever widened if we are willing to consider less frequent or direct interactions. While this does not pose an obstacle to the *conception* of stakeholder theory, it does create some challenges for implementation.

The manager as integrator of stakeholder interests

It has thus far been shown that Follett developed ideas very similar (if not identical) to the current conceptions of interpenetrating systems theory, and that stakeholder theory may be seen as a subset of this theory. However, Follett's likeness goes further than this – Follett argues explicitly that the administrator is the integrator of the interests of all parties concerned (Follett, 1940c). This is the main tenet, if not the definition, of stakeholder theory. While most of her discussion of managing the firm as a functional unity (rather than as independent functions within a whole) concerns primarily labor and management, she later notes the possibility of unifying a whole industry (Follett, 1940c, p. 92), and the advantages to be gained by coordination among the members of an industry. She also remarks, "I wish it were not so often assumed that the subject of personnel relations in industry applies only to employers and employees. The manager has to get credit from the bankers, make dividends for the stockholders, and he has to deal with his competitors. To be more exact, the manager has relations with: bankers, stockholders, co-managers, wage earners, competitors, the people from whom he buys; and customers" (p. 93). She makes the point that through unification of all of these parties, the business can develop "collective creativeness" which far outshadows individual creativeness. She adds that "Business cannot serve its maximum degree of usefulness to the community, cannot perform the service which it has, tacitly, bound itself to perform, unless it seeks an enlarged understanding of the practical methods of unifying business organization" (Follett, 1940c, p. 94).

In the above, Follett appears to be recognizing a social contract (to the community) to which business has implicitly agreed[7]. This is very consistent with Donaldson and Preston's argument (1994, 1995) that a normative justification of stakeholder theory may be based on property rights. In their argument, they point out that property rights, which had traditionally been used to demonstrate the prevalence of shareholders' interests, actually serve as a strong basis for recognizing the claims of other stakeholders. They quote Pejovich (1990, pp. 27-28), who states, that "property rights are relations between individuals … it is wrong to separate human rights from property rights". That individuals have rights, "property" or otherwise, imposes a necessary duty on others who would affect the realization of those rights[8].

This brings up an important point regarding normative versus instrumental justifications of stakeholder theory. While Follett appears to draw on normative bases (such as individual and social fulfillment) for many of her arguments, she also clearly expresses her belief that following these principles will lead to greater effectiveness (at an individual, organizational or societal level). In fact, Follett does not generally distinguish between what we would consider traditional measures of performance (e.g. profitability, growth) and the firm's success in achieving an integration of the interests of the parties concerned. This is a significant point, because it leads to a greater convergence between the normative and instrumental views of stakeholder theory than is usually implied. As Freeman (1984) and Donaldson and Preston (1995) allude to, if we adopt the stakeholder perspective that the true purpose of the firm is to serve as a vehicle for coordinating stakeholder interests, then the true test of corporate performance is the firm's success in satisfying multiple stakeholders. There would be no division, then, between instrumental and normative aspects of stakeholder theory: firm *success* and firm *morality* are one in the same, and both aspects should yield the same prescriptions for achieving this outcome.

The normative and instrumental aspects may not be divided in Follett's work, because Follett would not consider financial measures alone to be any measure of success; performance can only be accurately gauged in the firm's ability to fulfill the interests of all stakeholders. To primarily consider financial measures would be to only consider a small subset of stakeholders (stockholders) and potentially overlook a considerable loss by other stakeholders (see Hill and Jones (1992) for a discussion of how a potential utility loss is accrued when only some stakeholders are considered). Financial performance is, therefore, a very biased and inaccurate measure of success, and the current distinction between instrumental and normative aspects of stakeholder theory undermines this truth.

Integration

Even if we are able to recognize our interconnectedness with others, we still find that different individuals or groups desire, at the outset at least, different things. One of the primary challenges of stakeholder theory is, therefore, to find a way to reconcile or integrate these different objectives. In one of the early introductions to stakeholder theory, Freeman and Gilbert introduce their "personal projects enterprise strategy" (1988). In it, they refer to Immanuel Kant's imperative to "treat people as ends rather than as means". They go on to explain that each individual that is associated with the organization has their own objectives and "projects" (ends) that are important to them. Management's duty is to help these individuals achieve these ends, rather than using the individuals as tools towards fulfilling management's objectives. Through helping individuals achieve their ends, management shall achieve their own ends. In fact, in Freeman and Gilbert's terms, the ends of individuals become the ends of management[9].

The fundamental difference between treating people as *means* and treating people as *ends* is not one of action (though actions will undoubtedly be influenced) but one of perspective. If management *chooses to view* the individual's ends as valuable and complementary with its own ends, it will *act* in ways that respect the dignity of individuals and the importance of their objectives.

Follett's arguments for integration use the very same logic. Rather than perceiving management and labor to be on different sides, they should perceive themselves to be on the same side. Each individual or party should evaluate their own desires and the desires of the other parties concerned, and seek a solution which integrates those desires and satisfies each party fully. This is not meant to imply that the individual should subjugate their own views for those of others, in fact Follett argues that we must be careful to not give up our views too willingly to others. This is the hazard of having powerful and persuasive leaders – through allowing others to make decisions for us we lose much of our opportunity to come up with better ideas. Follett points out, "… [integration] needs just as great a respect for your own view as for that of others, and a firm upholding of it until you are convinced" (Follett, 1940a, p. 48).

Avoiding compromise

Follett argues vigorously for solving conflict through integration rather than compromise. In compromise, opposing parties each sacrifice something to come to an agreement that each party accepts, but neither party embraces fully: "When we compromise, something is always lost" (Follett, 1940, p. 214) and, "Readiness to compromise must be no part of the individual's attitude" (Follett, 1918, p. 29). Integration begins from a different vantage point; the parties are not opposing, and the conflict can usually be solved without either party feeling that it is winning or losing[10]. She argues that if the conflict is broken down into its basic elements and our desires reevaluated, the "law of the situation" should prevail. Furthermore, since the law of the situation should be equally apparent and desirable to both parties, the solution arrived at should satisfy both parties fully and remove the sense that the parties are "fighting" for separate sides.

Avoiding the idea of sides is a significant point, and lies at the heart of the debate between cooperative versus competitive paradigms in social, political and business arenas. As Follett points out, a major obstacle to integration is the presumption of opposition or antagonism between sides, and that language often reinforces that perspective. Once an individual identifies with a group and perceives another group to be an opposing side, the effort is likely to turn towards "winning", or dominating the other group, and integration is no longer sought. If, instead, we avoid the notion of sides and focus instead on our individual parts of a greater whole, we can more easily understand and empathize with the views of others, and this will enable us to achieve an integration between the ends of others and our own.

When stakeholders have conflicting interests

In her discussion of integration, Follett reveals herself as an idealist – in fact, she does not address the situation where integration fails and the parties are unable to find a mutually satisfying solution. What happens if we are unable to find a "law of the situation" which renders a solution to our conflict? Follett seems to partially recognize this possibility in *Creative Experience*, when she points out that accumulating information about a subject will only increase the diversity of alternatives or viewpoints, not decrease it (Follett, 1924, p. 6). This has a very direct impact on our use of stakeholder theory: What is the manager to do if the desires of one stakeholder group appear to be diametrically opposed to the desires of another? For instance, consider the stakes of customers and stockholders in a particular company. Customers may desire the company to charge a price for a product which just covers the cost of the product and some normal rate of return (to ensure that the company is able to continue making the product), while stockholders may desire the company to charge a price which maximizes the profit contribution of the product. Whether the manager is more interested in pleasing customers or investors is left out of the equation because we are not yet considering his or her stake. What is the integration solution? To split the difference would be a compromise.

The situation becomes much messier when you begin to enter in the stakes of others. For instance, employees might like the difference to be passed on in the form of higher wages, suppliers might like the difference to be passed on in the form of higher prices paid for materials, and the community might like the difference to be contributed to community improvement. The manager also has a stake – his or her salary, bonuses, and security are vested in the company. However, in the modern public corporation, the manager's interests are controlled much more by the stockholders than by any other group. The board of directors, on behalf of the stockholders, hires, fires and compensates the manager. Is the manager able to overlook this fact when searching for an integrative solution? Follett's ideas do not give us an answer for this situation, they can only give us direction for how to perceive and structure the situation so that the chance of coming up with a mutually beneficial solution is maximized.

Changing the relations between stakeholders and managers

One of the ways in which we can use Follett's ideas to enhance the implementation of stakeholder theory arises from her argument that we must not understand only the constituents of a system, but also their relationships to each other. It is impossible to alter any feature or constituent of a larger system without producing repercussions which alter the whole. In fact, Follett argues that it is often more important to study the relations between entities than the entities themselves (Follett, 1924). She states, "Holt has shown us that reality is in the relating, in the activity between" (Follett, 1924, p. 54). For instance, she points out how the realignments of nations change each nation, and adds, "rearrangement is always more than rearrangement; it changes the character of the things arranged" (Follett, 1940f, p. 189).

This implies that rather than trying to change the behavior of managers or the power of individual stakeholder groups, we should focus instead on changing the *relation* between the manager and the stakeholders. Placing constraints on the manager to protect society's interests will always be a simplistic and inadequate solution. First of all, constraining the agent's behavior on behalf of his or her own self-interest will always create opposition between the agent and the constraint (or originators of the constraint). Therefore, the agent will either always seek a way to overcome the restraint, or in accepting it, feel him or herself to be sacrificing something. This is the same failure as in compromise: we have not created a solution that both parties embrace fully. Second, since the environment is always changing, a static constraint will inevitably become obsolete. Follett gives three "fundamental principles" regarding change and response: "my response is not to a rigid static environment but to a changing environment; the environment is changing because of the activity between it and me; that function may be continually modified by itself" (Follett, 1924, p. 64). A more dynamic solution is necessary.

Third, Follett argues that the distinction between self-interest and social interest is a false one. There can be no separation between the individual and society, because (as previously discussed), true man exists only as a part of society. Furthermore, Follett argues that "social interest" invokes ideas that are too abstract, and is often more of a reflection of the interests of the governing class than that of society as a whole. She prefers the idea of integrating individual interests because it is more concrete, legitimate, and produces much more fruitful implications (Follett, 1924, p. 48). This indicates that rather than trying to prevent the manager from pursuing his or her own self-interest, we should find ways to integrate the managers' interests with those of the stakeholders.

If we follow Follett's advice and change the *relation* between the agent and the stakeholders, we may be able to integrate their interests and elicit agent behavior which is both appropriate to the needs of stakeholders (and the needs of the agent him or herself), and is self-correcting over time so that the agent's behavior remains appropriate, evolving with the changing demands of the environment[11].

The board of directors: representing the interests of stakeholders rather than stockholders

One major way this could be achieved is to alter the primary governance structure of the modern corporation: The board of directors. The board is the representative of the stockholders, and is charged with responsibilities that include approving the broad strategies of the firm, monitoring and disciplining managers and setting the compensation for the chief executive officer (CEO) and other top executives. However, if we begin with the premise that the firm exists to serve the interests of multiple stakeholders, and the manager is the primary administrator of those activities in which the firm engages (or refrains from engaging) then we reach the conclusion that *the manager is the agent of the multiple stakeholders of the firm*. If the manager is the agent of multiple stakeholders, then it seems only fitting that the board of directors represent the many stakeholder groups impacted by the firm rather than safeguarding only the interests of stockholders.

Board members could be chosen to represent all stakeholder groups. They could be nominated and elected by all stakeholder groups. This suggestion is substantively different from the codetermination law, or *Mitbestimmung*, established in Germany. Under the codetermination law, the supervisory board is required to represent shareholders and employees in equal numbers in all corporations with more than 2,000 employees. Under the two-tier board system, the supervisory board is responsible for appointing the board of managing directors, supervising management, approving the balance sheet and making proposals for the distribution of profit (Schumann, 1996). In theory the codetermination law gives employees and shareholders an equal voice on the supervisory committee. However, in practice, the shareholders hold the majority because they appoint the supervisory board chairman, who has two votes in the event of a tie. Furthermore, critics have pointed out that the supervisory board meets rarely (no more than four times a year) and that its members are usually selected by the management board that it is supposedly overseeing (*Economist*, 1994). The actual power of employees in the decision-making process and their degree of participation in formulating strategy for the firm is quite limited under the codetermination system, though the format does provide for continuous dialogue between the two groups (Schumann, 1996).

The suggestion here extends well beyond a codetermination law by recommending that: all stakeholders be represented on the board; that no separation, hierarchical or otherwise, should divide the stakeholder groups on the board; and that all members of the board be given equal and extensive opportunity for participation in shaping the broad strategy of the firm, and in the hiring, rewarding and disciplining of managers. Furthermore, there should be no primacy given to one constituency over another.

Electing board members

The nomination and choice of representatives is another important issue that Follett's ideas can guide us in. There may be a assumption that a particular stakeholder group would nominate and elect only its own representatives, however to do this may create unnecessary division and opposition. All constituents should have a voice in all members' nomination and election, because to do otherwise would encourage the idea of "sides" to be fought for, and hinder integration. Follett points out that we should avoid the notion of sides, or fighting in all circumstances (Follett, 1940a, 1940c, p. 72); once an individual has identified with a side, they may perceive an elevated level of antagonism between themselves and individuals associated with other sides, and they may rigidly stick to their own previously-determined ideas, rather than being open to seeking out an integrative solution.

By altering the board of directors in this way, we could:

(1) dramatically change the relationship between agent and stakeholder, thereby changing not only the agent's *behavior*, but their *perspective* from which their behavior arises;

(2) facilitate the establishment of monitoring and incentive systems which align the interests of management and stakeholders;

(3) reduce the information asymmetry that exists between stakeholders and managers (Hill and Jones, 1992) by giving stakeholders more access to firm information and increased accountability of the agent to stakeholders; and

(4) increase the participation of stakeholders by giving them the opportunity for more direct involvement with the firm.

Establishing a board of directors that is a representative of the stakeholders (rather than just stockholders) would also facilitate joint fact finding and inspection, and help to fulfill Follett's imperative that "a business should be so organized so that all will feel this responsibility" [for the whole] (1940c, p. 80). However, changing the board of directors, Follett would argue, is not enough. The board of directors is largely a monitoring and disciplinary body, that may make decisions on important policy proposals, but is rarely involved in the formulation of the policies themselves. This, Follett would argue, is a beginning step, but would not constitute enough true *participation*.

Participation

> It is clear then that we do not go to our group – trade-union, city council, college faculty – to be passive and learn, and we do not go to push through something we have already decided we want. Each must discover and contribute that which distinguishes him from others, his difference. The only use for my difference is to join it with other differences. The unifying of opposites is the eternal process (Follett, 1918, p. 29).

Follett points out in her work that one problem with our current conceptualization of democracy is the idea of "consent of the governed". Consent, Follett argues, is inadequate. Consenting, or voting on predetermined options, does not contribute nearly as much as participating. While having the consent of the governed is better than not having it, and is a first step towards achieving democracy, we must also push for something greater that that: participation. Participation is each taking part according to his or her capacity.

Freeman emphasizes participation as well. In the Personal Projects Enterprise Strategy, Freeman and Gilbert put forth their "principle of corporate membership" which states: "Corporate members have the right to participate in those decisions which affect the accomplishment of their projects in an important way. Typical corporate members include managers, stockholders, employees, suppliers, customers, and community representatives" (Freeman abd Gilbert, 1988, p. 170). Evan and Freeman's 1988 work also includes participation in their "Principle of corporate legitimacy", which states: "The corporation should be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees, and local communities. The rights of these groups must be ensured, and, further, the groups must participate, in some sense, in decisions that substantially affect their welfare".

Freeman's "participation" versus Follett's "participation"

However, the nature and purpose of participation appears to be somewhat different between Freeman's conceptualization and that of Follett. First, participation in Freeman's terms appears to mean allowing constituents to vote or choose among the potential choices the firm may make. For example, Evan and Freeman state that "… stakeholders have some inalienable rights to participate in decisions that substantially affect their welfare or involve their being used as a means to another's ends" (Evan and Freeman, 1988, p. 102). Note the use of the word *decisions*; Follett did not consider "having a say" or voting on a particular decision to constitute participation. By the time an issue is submitted to the approval of a constituency group, the alternatives have already been (and prematurely, Follett would argue) determined, and therefore choice is constrained. Furthermore, the number and kind of alternatives that were originally generated will have necessarily been inadequate since the input of the multiple constituents was not employed from the outset. Participation, according to Follett, is not the same as consent; participation is each taking part to their fullest, at every stage of the process.

A second point of difference between the authors (with respect to participation) relates to the issue of normative versus instrumental forms of stakeholder theory. Freeman's urge for participation appears to be grounded on normative justifications; that is, only through allowing groups to participate can we avoid depriving them of their rights: "That is, each of these stakeholder groups has a right not to be treated as a means to some end, and therefore must participate in determining the future direction of the firm in which they have a stake" (Evan and Freeman, 1988, p. 97). Allowing stakeholders to participate in choices that significantly affect them, is therefore a moral imperative. Follett's urge for participation places much more emphasis on the instrumental justification: that participation will improve performance. She consistently points out that the firm's power, its ability to meet its objectives, and the constituents' abilities to meet their objectives will be much improved if we *insist* (not just *allow*) on the participation of each constituent in any and every manner in which they are able to contribute their strengths.

Follett points out that one way to increase participation is to not present groups with either-or situations (where an answer of "yes" or "no" is sought). This is "impoverished thinking" as it does not exhaust all possibilities. "There are almost always more than two alternatives available in a situation, and our job is to analyze the situation carefully enough for as many as possible to appear" (Follett, 1940g, pp. 219-20). In practice, this may mean that stakeholder groups should be given an opportunity to participate in the decision-making processes of the firm, and that their involvement should include the *development* of options, not just the choice among options. Early involvement in issues is critical; it allows us to understand each group's interests and expose alternatives before differences have crystallized or "sides" form. As Follett adds:

> Consent is not part of the process, it comes at the end of or after the process. Participation is not only part of the process; it should begin with the beginning of the process (Follett, 1940g, p. 223).

Stakeholder involvement in organizational activities

In order to have stakeholders participate, their ideas need to be solicited as early as possible; they should be involved in new product teams, in developing new marketing strategies, and in the decision to locate and build new manufacturing facilities. Their involvement should be integrated into the firm's processes wherever possible, and it should be made explicit that this involvement is for the purpose of soliciting their ideas and views, rather than for the purpose of co-opting them to get their approval of the firm's activities.

The involvement of stakeholder groups should improve the firm's effectiveness in its various production functions in addition to its effectiveness in integrating the interests of its stakeholders. If employees are involved in the planning of orders, they may plan them so as to maximize both their own efficiency and morale (Follett, 1940b). Furthermore, the involvement of individuals from heterogeneous backgrounds increases the size and diversity of the pool of information resources available to the firm, and allows for a "cross-fertilization of ideas" (Damanpour, 1991). In recognition of this, many firms are now actively seeking the involvement of multiple stakeholder groups in their new product development efforts. For instance, in Boeing's development of the 777, they created a project team that was composed of Boeing employees, customers (for example, pilots and flight attendants from United Airlines), and suppliers (for example, General Electric, which developed the engine for the plane). Pilots and flight attendants were able to make suggestions in how to improve the design of the cabin and cockpit which increased functionality and comfort. General Electric's involvement ensured that the plane body design and engine design would be optimized for compatibility. In this way Boeing was able to improve both its product and its manufacturing process.

Follett points out that "the experience of all is necessary" (1924, p. 19); that we must combine the expert's type of experience with the "everyman's" kind of experience. The combination of multiple and diverse pools of experience should exponentially increase both the volume and quality of our organization's knowledge.

Facilitating participation through organizational structure

One way that participation at all levels can be encouraged is to change the structural characteristics of the organization. Decentralization is not a sufficient solution; the notion of decentralization is premised on the view that there is a top and a bottom to the organizational hierarchy, and that top managers can give power to individuals lower in the firm. This is inconsistent with Follett's points on two counts. First, Follett points out, power cannot be "given away", it can only be developed in others. Jointly developing power, Follett argues, can bring more power into existence, and "is the high mission of enlightened human intercourse" (Follett, 1940d, p. 114). Second, Follett asserts, the hierarchy should not be an instrument for determining power or authority, it is merely a structure used to facilitate the combination of activities. The firm may need to abandon the notion of a hierarchy altogether and develop whatever idiosyncratic organizational form best enables each organizational member to participate to his or her fullest capacity (Follett, 1940d, 1940e). This is similar to ideas asserted by Ghoshal and Bartlett (1997). They posit that the role of the manager is not that of primary decision maker; the role of the manager is to create an organizational context which empowers employees to most fully exercise their potential. The manager may need to provide resources, or ensure that employees are able to communicate with others who can help them achieve their objectives. The manager does not sit as a ruling body on top of a vertical hierarchy (they also point out that many organizations appear to be evolving beyond the M-form of organization). They describe the manager's primary job as "creating the smell of the place".

Conclusion

An underlying theme connecting both Follett's work and stakeholder theory is a cooperative *inclusiveness*. Rather than focusing on the boundaries separating groups, and the differentiation between their objectives, Follett and stakeholder theorists focus on the connectedness between the organization and other stakeholder groups, and on integrating their interests. Firms are not discrete bodies with a singular purpose, but a loci of the varied interests of many individuals, and where one chooses to draw the boundary around what constitutes the organization may be an arbitrary matter. To be as successful as possible in our role in society, we might do well to heed Follett's advice:

> We should be as interested, as self-interested, as possible, but only as members of the highest unity with which we are capable of identifying ourselves (Follett, 1940g, p. 218).

Follett's ideas both deepen our understanding of the foundations of stakeholder theory, and provide direction for extension and implementation of stakeholder theory. However, her ideas do not provide solutions for all the obstacles that stakeholder theorists face. For instance, to implement many of the recommendations derived here it is still necessary to delineate which stakeholders to attend to, and we do not yet have a prescription for this task. There also will be situations in which an integrative solution eludes us and we are forced to either compromise or place the priorities of one group above another – both of which are options Follett would not have preferred. However, Follett's work does advance the field significantly, and that questions still remain does not undermine the value of her contribution. In her own words:

> The common will never find perfection but is always seeking it. Progress is an infinite advance towards the infinitely receding goal of infinite perfection (Follett, 1918, p. 51).

Notes

1. Note, the use of the male pronoun throughout the paper is not meant to indicate gender specificity, but is merely a reflection of the writing style of the time period in which Follett wrote.
2. While this idea was counter to the prevailing views of the time, this was not a new concept and is very similar to the Aristotelian virtue of *community*.
3. Some stakeholder theorists have even extended the concept to non-human entities such as animals or the natural environment (Starik, 1994).
4. The idea of ranking or prioritizing stakeholders would probably have been considered illegitimate by Follett, who says, with respect to weighing the interests of one over another, "How is this valuing to be done, who is to do it?" (*Creative Experience*, p.34).
5. The firm may, however, get to choose among the potential *representatives* of stakeholder groups with which to deal.
6. It is interesting to note that Freeman and Gilbert seem to undermine this principle when they put forth their Principle of Fiduciary Responsibility which asserts that management has a fiduciary responsibility to the organization in addition to a responsibility to the stakeholders. But if the organization is merely a vehicle for serving the interests of stakeholders, its "interests" should not be separable from those of stakeholders, and in fact, it may sometimes be in the best interest of stakeholders to dissolve the firm.
7. Social contract is used here to refer to the implicit agreements individuals or groups make to each other, which is what Follett describes the firm as having done. However, it should be noted that Follett renounces the social contract ideas of the seventeenth and eighteenth centuries (*The New State*, p. 75) as "political fallacies" which she says were "based on the idea of developed individuals first existing and then coming together to form society".
8. How rights originate and what they entitle the bearers to is a matter of some controversy among those who support the various distributive justice theories. Utilitarianism establishes rights based on *need*. Libertarianism establishes rights based on *ability* or *effort*. Social contract establishes rights based on expressed or implicit agreements (Donaldson and Preston, 1995). Others have argued that the most reasonable way to establish rights would be to integrate these approaches.
9. See also Solomon, 1992, for a discussion of these same points within an Aristotelean framework.

10. Mary Parker Follett also describes how the language used in business often confers a presumption of fighting. For instance, using words such as "enemy", "grievance", or "dispute" may overemphasize the extent to which parties are antagonistic.
11. Follett discusses the continuously changing nature of entities and their relations between each other and the environment in *Creative Experience*, pages 63-64.

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