WHY WE NEED MORE POWERFUL MULTINATIONAL CORPORATIONS

It may be possible to make governance changes that render large global corporations more beneficial – and less costly – to humanity.

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Management scholars should be among the leaders of debates about desirable changes in the governance of corporations, an important task that should not be left solely to judges and politicians. Although debates about governance should involve all stakeholders, academics have special responsibilities as both thought leaders and sources of reasoned analysis. Even if it takes many years and millions of words, contemporary academics can reshape humanity’s understanding of corporations’ properties.

History indicates that academic debates significantly influenced today’s governmental and legal policies and actions regarding corporations (Starbuck, 2003). During the 1800s, proprietorships and partnerships were much more prevalent than joint-stock companies and corporations, and people saw little distinction between these organisational forms (Lamoreaux, 2000; Mark, 1987). Each business had to have a unique charter, and these charters did not limit the liabilities of owners. It was academic debates, especially during the late nineteenth and early twentieth centuries, that established the differences between partnerships and corporations. A four-volume work (1868–1913) by Gierke proposed that each corporation possessed personhood and a distinctive personality. Gierke’s idea spread worldwide and influenced government policies and legal decisions in many nations. Machen (1911, p.259) amplified this idea, arguing that a house could not be ‘merely the sum of the bricks that compose it’ for one could ‘change many of the bricks without changing the identity of the house’. Rathenau (1917, p.121) pointed out that ever-changing ownership through stock-exchange trades implies ‘the enterprise assumes an independent life, as if it belonged to no one’. Later, Berle and Means (1932, p.313) showed that ‘all stockholders held very small fractions of the stock, with the result that stockholders of about half of the largest corporations could not exert effective control’.

It would be a mistake to lump all corporations into a single category. Uniform governance policies would not serve the interests either of most corporations or of humanity in general. Large global corporations deserve special thought and distinctive policies. An approach to governance that serves the interests of one corporation in the short run may be incompatible with long-run peace and prosperity in the world as a whole. Trying to change corporations’ behaviours solely by altering their boards of directors is likely to be ineffective because the truly powerful governance processes operate inside management hierarchies. Contemporary corporations are only starting points for evolution toward future corporations that will almost certainly differ greatly from those that now exist.

Large global corporations deserve special handling

Just as people in the early nineteenth century did not draw clear distinctions between types of business
firms, people today do not draw clear distinctions among types of corporations. The unitary term ‘corporation’ implies that laws and governments should treat all corporations in much the same ways, yet the behaviours of small, closely-held local corporations differ in content and effect from the behaviours of large global corporations. Effective policies toward business firms require cognitive categories and labels that make useful distinctions – and academic debates have historically exerted strong influence in the construction of these categories.

The geographic scope and economic power of large global corporations place beneficial changes in their governance among the most important challenges for humanity. These corporations both create and mitigate the world’s serious long-term stresses. It may be possible to make governance changes that render these corporations more beneficial – and less costly – to humanity.

Many large corporations wreak harm on their social and natural environments. Some focus on exploitation, armaments, and short-run windfalls. Almost all have behaved badly on occasions. Many corporate executives act selfishly or dishonestly; corporations lie, cheat, and steal. However, such behaviours occur at least as often in the non-governmental and governmental sectors. Organisations everywhere are composed of people, and those who work in corporations resemble those who work for governments and NGOs. Practical solutions to earthly problems must allow for inconsistencies, imperfections, and failed strategies. Indeed, it may be that inconsistencies, imperfections and failed strategies are essential elements to long-run improvements.

Large global corporations warrant special attention not so much because of their current behaviours but because of their potential for future benefits. Overall, existing social institutions have failed to create a better world. Changes are essential. Starbuck (2004, 2013) described important global trends in population, wealth stratification, communication technology, transportation, cultural identities, armed conflicts, and corporate governance. These trends challenge the premises on which contemporary societies operate. The UN and the World Bank predict that starvation, warfare and social stratification will all increase; and that people are going to devote increasing attention to short-run instead of long-run goals (National Defense Council Foundation, 2002; Shell International, 2002; Starbuck, 2004, 2013; United Nations, 2010, 2012; World Population Awareness, 2003). Some large global corporations have been making important contributions toward better futures in all of these areas. These contributions include transfers of wealth from more affluent to more impoverished people, reductions in the frequencies of armed conflicts, increases in social equality, and investments to create future options (De Grauwe and Camerman, 2003; Doering et al., 2002; Omae, 1999; Starbuck, 2004, 2013). Indeed, large global corporations are practically the only societal institutions that are spanning national boundaries, mitigating international conflicts, attending to global issues, and linking the world into a cooperative system.

Because large global corporations have already proven themselves extremely effective, they could become tools for mitigating or solving the looming global problems. Humanity clearly needs more effective tools than currently exist. However, powerful tools can be dangerous and inflict great harm, just as they can create great benefits. The key question is: who controls these corporations?

Global corporations have shown strong tendencies to collaborate with national and local governments, tendencies that generally favour the interests of wealthier versus poorer nations, prioritise warfare instead of peacemaking, and emphasise short-run instead of long-run goals. Current institutional structures have resulted from interactions between corporations and legislators in which the corporations offered incentives to legislators to pass laws that favour the corporations. Nations and states have competed with each other to win the favour of corporations.

Because humanity usually fares better when businesses and governments serve distinct purposes, a major challenge is how to increase the differentiation between large global corporations.
and national governments. Historically, close cooperation between corporations and governments has taken resources away from average citizens and employees, present and future. National governments have geographic definitions that embody the interests of contemporary holders of power and wealth, so when national governments exercise control over corporations, the controls favour inequality of wealth and power.

**Humanity must decide what goals are most important**

Large global corporations have many degrees of freedom. They can sidestep or influence government efforts to control them. Changes in their governance are unlikely to occur unless the affected corporations perceive these changes to be advantageous. However, recent trends suggest that large global corporations are losing their national identities and gradually becoming citizens of the entire world, and their behaviours are creating bonds between individual people and institutions that span national boundaries (Starbuck, 2004, 2013). Thus, corporations may see value in governance changes that reflect their broadening geographic ranges.

Nevertheless, there are serious disadvantages to promoting governance changes based on benefits offered to current corporations. Many current executives have extracted personal short-run benefits to the disadvantage of other current stakeholders (employees, customers, suppliers, neighbors). Current executives are not tomorrow’s executives, and in solving current problems they may create future problems. Costs and benefits from the perspective of one lone corporation are nearly always different from those seen in retrospect by citizens and corporations of the future. The survival and success of individual business firms may well prove harmful from a long-run global perspective. What matters for the world at large is the distribution of evolving capabilities across the entire population of business firms.

Proposals that call for corporate governance by heterogeneous boards of diverse stakeholders risk turning corporations into arenas in which contending interests fight over spoils. Such fights have driven many corporations out of business. Diversity on boards may slow decision-making, particularly reactions to threats or opportunities. Involvement of many outsiders who change frequently may mean that directors do not understand corporations’ internal operations and do not accurately evaluate consequences of proposed actions (Kristie, 2009).

Contemporary corporations gain considerable advantages from focusing on a unitary goal – corporate profits. Pursuit of profit is not simple – profit integrates multiple sub-goals, some of which contradict each other. The apparent simplicity actually represents the net effect of diverse institutionalised conventions about how to resolve conflicts among goals. A profit focus enables corporations to resolve conflicts between political interests both within and between corporations and their environments; and facilitates the resolution of conflicts between contending technologies, strategic options and competing corporations. Thus, a profit focus reduces pre-decision debates. Swift decision-making has enabled global corporations to comprehensively outsmart national and local governments.

However, profit computations depend on institutionalised accounting conventions that ignore many issues. These conventions change slowly via governmentally-approved boards and courts; they ignore the particular circumstances facing individual corporations; and they bias corporations’ perceptions toward the past and the present, and away from the future. Thus, governance changes that encourage corporations to engage in internal debates about consequences would also transfer power to corporations and weaken professional bodies, courts, and national and local governments. Insofar as large global corporations attend to issues that span national boundaries, such changes would tend to integrate the world and shift thinking toward the future. Academic debates and research can influence corporate governance by influencing accounting conventions.
Effective governance structures need to operate at several levels

Everyone can think of instances in which boards of directors have fired CEOs or demanded major changes in corporate strategies. These events draw attention because they are so rare. Directors rarely take strong actions contrary to management because they are subordinate to management and have monetary and social incentives to endorse management proposals and strategies. Frequently, senior executives nominate all the candidates for board membership – people whom they expect to make no waves. Most stockholders do not purchase shares themselves; they purchase mutual funds or they manage pension funds. Usually 70 to 80 per cent of shareholders return proxy ballots that give senior executives control over the actual elections of directors. Matters that boards discuss usually come through corporate hierarchies that make sure disruptions do not occur. In many instances, the corporate CEO is the only person from inside the corporation who participates in board discussions consistently, making the CEO the board’s dominant source of information about events inside the corporation. Senior executives who want the opinions and insights of various external experts can obtain these from consultants or informal advisors as well as from boards of directors.

Given that senior executives dominate daily operations in large global corporations and dominate the composition of boards of directors, it seems naïve to think that changes in non-managerial governing boards are likely to have enduring effects. For governance changes to have lasting and significant effects, the changes should focus on managers themselves: what is the right composition of a managerial hierarchy; what are productive ways for management to operate and interact?

As corporations have expanded globally, they have become more reliant on native-born host-nation executives, who are increasingly rising to the tops of managerial hierarchies. This process of internationalisation has contributed to the trend in which corporations increasingly lack national identities. It also reduces corporations’ propensities to exploit host nations. These changes seem likely to expand as more and more corporations spread globally. Nevertheless, managerial governance can be better.

As many critics have pointed out, senior executives in large corporations are quite self-confident and accustomed to receiving deference. A few become so used to deference that they are prone to rambling monologues and to interpreting dissent as criticism or even disrespect. Although hierarchical deference allows fast decisions and reduces intra-organisational conflict, it also hides information and alternative interpretations that might improve decisions. The censored inputs include extra-organisational issues, externalities and potential threats. Thus, senior executives need exposure to dissenting views to help them remain grounded. They also need opportunities to discuss topics that are not yet sufficiently relevant for discussion by boards of directors, such as speculation about future challenges and opportunities – technological trends, possible changes in government regulation, or global politics.

Governance by management is more effective when senior executives receive inputs from people they perceive as their peers – senior executives in other corporations and government agencies. Managers at all levels are more likely to heed those they perceive as peers. CEOs can challenge the thinking of fellow CEOs without appearing disrespectful. People speaking to peers tend to phrase their ideas and criticisms in ways that listeners are willing to hear.

Currently, a handful of venues draw senior executives from different corporations to discuss topics of mutual interest in settings where participants can speak freely without risk of public observation. For example, the World Economic Forum in Davos, Switzerland, offers presentations about global social issues that stimulate discussions (http://www.weforum.org/). The forum draws 2000 participants from large organisations worldwide. However, its presentations and the discussions that ensue receive press coverage, which tends to suppress free expression in public meetings.
Although forum sessions do not attempt to link global issues to the policies and practices of individual corporations, such linking may occur when participants engage in informal evening discussions.

By contrast, the Yale CEO Summits occur with no press coverage because participants agree to publish or report nothing that they hear during the event (http://celi.som.yale.edu/ceo-summits). The summits seek to create ‘safe havens’ in which 100 participants can speak very freely. In addition to CEOs, the participants include various kinds of experts, government officials, legislators, regulators and shareholder-activists. Once, a US President brought his entire cabinet. They begin by discussing recent events and global issues that potential participants have identified during one-on-one conversations. These events and issues then become springboards for a daylong evolution from global toward local, from the world at large toward participants’ own corporations.

Yale has offered to help other business schools to start similar programs, so far without any response. One reason may be that such meetings diverge from the ways universities normally operate. Although participants pay fees that cover the costs, it takes considerable work to create meetings that seem relevant to senior executives. An unstable roster of conventional professors cannot perform these activities well; they probably require decades of commitment and professors with distinctive abilities (Rifkin, 2011).
Beyond today's corporations

The twenty-first century has begun turbulently with social disruption, wars, and global environmental threats showing no sign of abating. Indeed, forecasters say that turbulence is likely to grow (UN, 2013). However, such disruption brings the potential for change, as past turbulence has fostered social innovations. For example, industrialisation and geographic migrations during the nineteenth century led to experiments with new organisational forms that eventually produced contemporary corporations.

Social innovation during the twenty-first century will change legal and popular concepts about corporations. There are many reasons to challenge the usefulness and validity of current concepts, including concepts about corporate governance. Widespread but incorrect myths say corporations operate for the benefit of stockholders and are subordinate to local and national governments. Myths also claim that managers serve the interests of stockholders, and that other stakeholders should have no voice in corporate governance. Reality says that owners’ voice in corporations comes indirectly through financial markets, and that some other stakeholders – mainly large powerful organisations – have stronger voices in corporate governance than stockholders. Frequently, small groups of managers control corporate policies and resource allocations and choose their own successors. Thus, it is time to rethink ideas about large corporations. Corporations fall into several distinct categories that already have different rights and responsibilities. Large global corporations have different rights and responsibilities in different nations.

Powerful social and technological forces are also pressing corporations to innovate. Cellphones have spread faster than any previous technological innovation and are multiplying communication to a degree that could prove socially transformative. Increasing education, telework, diversity, globalisation and technological change are making traditional hierarchies less useful and making intra- and inter-organisational networks more useful. This implies that alliances and inter-organisational networks will replace many organisations and that senior executives and governing boards will need to focus on culture-building and the management of trust (Baumard and Starbuck, 2001). As alliances and networks replace corporations, formal corporate governance will become less relevant for actual behaviours.

One radically different organisational form has already emerged: Islamic countries have spawned organisational force-fields that cause people to spring into action almost at random over large geographic areas (Bell, 2002). Force-fields perceive an organisation not as a control structure or system of rules but as a potential for actions that hover just below the brink of actualisation. Which people actually act and which actions occur can be quite random because they are specific instances from very large pools of latent possibilities. The emergent activities may take different forms and involve different missions in different ways at different times. Some of these force-fields have been the media for societal revolts, including terrorist activities, political revolutions, and financing of product innovations. However, force-fields have numerous applications in a globalising world where much low-cost, high-speed communication occurs between people who have never met face-to-face. Indeed, Facebook and Twitter are operating largely in force-field mode.

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