Toward a Stakeholder Theory of the Firm: The Saturn Partnership

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The idea that the firm should be accountable not only to shareholders but also to a broader set of stakeholders is "in the air." But what would such a firm look like? This study dissects one organization that has some of the markings of a stakeholder organization, with a particularly innovative approach to employees as stakeholders. The dissection reveals some of the promise and the pitfalls of the underlying model.

Paul Adler

Abstract

This paper seeks to engage the organization theory community in contemporary debates over the role of the corporation in American society by using the case of the Saturn corporation to develop and illustrate a stakeholder theory of the firm. One normative and three positive questions are posed for a stakeholder theory: The normative question is: Why should stakeholder models be given serious consideration at this moment in history? The positive questions are: (1) Under what conditions is a stakeholder firm likely to emerge in the United States, (2) what are the critical determinants of performance in a stakeholder firm, and (3) what will determine the sustainability and diffusion of this organizational form in the American environment? The history, design features, and dynamics of the labor-management partnership at Saturn are used to illustrate and interpret a specific case of employees as stakeholders. Saturn's original mission, governance structure, and internal processes fit the characteristics of a stakeholder firm. Employees establish themselves as influential, definitive stakeholders by using their knowledge to improve organizational performance. The local union likewise contributes to firm performance by organizing workers into a dense social network that contributes to problem solving, conflict resolution, and quality improvement. However, the legal and political environment in which the firm operates produces considerable uncertainty over the sustainability and diffusion of Saturn's features in particular, and the stakeholder organizational form in general. Additional hypotheses and research questions are proposed to continue theory building around the more general model of the stakeholder firm. Researchers are encouraged to take up the analysis of stakeholder models and thereby contribute to the contemporary and future debates over the role of the corporation in American society.

(*Organization Theory*; *Saturn*; *Stakeholder*; *Partnership*; *Labor-Management Relations*; *Social Networks*; *Labor Unions*; *Firm Governance*)

Organization theorists have recently been challenged to give greater attention to the role of the corporation in the larger society (Stern and Barley 1996, Selznick 1996) and to build and test theories of alternative organizational forms by studying new models as they emerge in practice (Daft and Lewin 1993, Zald 1993, Wicks and Freeman 1998.) A variety of new forms, such as networked firms, learning organizations, etc., have been examined in recent years. None of these, however, explicitly join what we see as the essence of the public debate over the future of the American corporation. That is, should maximizing shareholder wealth continue to be the singular purpose of American corporations, or should they be designed to accommodate and be held accountable for meeting the goals of multiple stakeholders? Ultimately, this is a partly normative and partly positive question, and one that requires research that both explicates the normative issues and poses the theoretical questions in ways that promote tractable empirical research. This paper seeks to develop such

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a theory and to illustrate some of its propositions with a case study of the first decade of experience at the Saturn Corporation, an organization that appears to embody many of the features of a stakeholder firm. But because Saturn has some rather idiosyncratic features, it represents only one specific approach to creating a stakeholder firm. Thus, after presenting the case, we return to theorizing about alternative models and suggest the need for additional case studies of these alternatives. As such, our approach fits Weick's (1995) description of "theorizing," i.e., building a grounded theory (Glaser and Strauss 1967) by iterating between inductive and deductive methods.

The Normative Debate

Contrary to common belief, the shareholder-maximizing perspective is not an immutable law of economics, but in fact emerged as the dominant goal for the American corporation out of a particular historical context. Indeed, debate over the purpose of the corporation has a long history in American society. In the early years of the nation, corporations were expected to exist for the public good. Over the course of the 1800s considerable theorizing and experimentation ensued with alternative organizational forms that sought to internalize the interests and objectives of different groups, such as consumer, producer, or worker cooperatives (Webb and Webb 1930, Abrahamsen 1976). Various types of industrial democracy movements also developed and were promoted in early to mid-1800s, ranging from the early Knights of Labor as envisioned by Terrence Powderly, to the utopian communities built in various Midwestern communities in fashions similar to the modern day Israeli kibbutz, to the utopian organizational models promoted by, among others, journalist/philosopher Horace Greeley. These ideas and organizations all sought to solve the problems brought on by industrialization, such as the growing separation of interests, control, and the distribution of surpluses (profits) between workers and owners/managers. Some of these ideas would later inspire formal theories of self-managed firms (Vanek 1975), and models of employee ownership that build in democratic governance principles (Rothschild 1986, Blasi and Kruse 1991). In this sense, these ideas and organizational models serve as precursors to the emergence of stakeholder arguments in more recent years.

By the late 1800s, however, the modern American corporation and the shareholder-maximizing principle emerged and gained force when amassing a large pool of finance capital came to be seen the most important new resource to be mobilized in order to exploit the opportunities of growing mass markets (Phahalad 1993, Roe 1994, Smith and Dyer 1996, Calomiris and Ramirez 1996). Gradually, shareholders gained property rights enforced by contracts and limited liability doctrines and managers were held accountable for using the firm's resources to maximize shareholders' interests. Over time, management thus began to be viewed as the shareholders' agents. Given the importance of capital, within the firm financial specialists rose to the pinnacle of power (Fligstein 1990).

Contemporary debates over the purpose of the corporation appear to rise and fall in response to changing economic and social events (Berle and Means 1932, Mason 1959, Kaysen 1996, Smith and Dyer 1996). In the 1960s for example, the urban crises, civil rights movement, and protests over the Viet Nam war generated a debate about the social responsibilities of business. This produced a spirited defense of the profit-maximizing principle for corporations by leading economists (Friedman 1970). In the 1980s, deep concerns over the competitiveness of American industry (Dertouzos et al. 1988) led to intense interest in the strengths of the German (Wever 1995) and the Japanese (Aoki 1988) corporate forms, both of which embody strong stakeholder principles and rights. In the 1980s the rise of hostile takeovers and pressures from institutional investors (Jensen 1989) produced a counter reaction that clearly strengthened the power and centrality of shareholders in American firms. In turn, the mid-1990s has produced another round of critiques of the American corporation, focused in large part around the question of whether the pendulum has swung too far, so that shareholders are getting a disproportionate share of the benefits flowing from corporate performance at the expense of other stakeholders in general and employees in particular (Useem 1996). With respect to employees, the concerns are that the long-term effects of corporate downsizing and outsourcing, stagnant real wages, increased income inequalities, the growth in various forms of contingent work, and declining union representation have broken the implicit psychological or social contract (Rousseau 1995) in employment relations (*New York Times* 1995, Hutton 1995, Reich 1996). These critiques were countered by voices in the business and financial press arguing the pitfalls of "stakeholder capitalism" (*The Economist* 1996). Most recently, the Asian economic crisis once again raised this debate, this time with some in the business press arguing that the American model of corporate governance has once again proved its superiority over the Japanese and other Asian models. This debate is likely not only to continue but to escalate as societies struggle with how to achieve a more equitable balance in the benefits and costs of economic and organizational growth and decline, and to find the right balance between government regulations, countervailing power of private institutions, and enterprise autonomy (Kaysen 1996).

Thus, we believe the search for more equitable outcomes, or a better balance in the distribution of economic and social benefits and risks, lies at the heart of the normative debate over whether corporations should be designed and governed and held accountable for meeting the goals of multiple stakeholders. However, the lack of a clearly articulated theory of the differences between stakeholder and shareholder organizational forms, or empirical studies of these alternative forms operating in the United States, makes it difficult if not impossible for organizational theorists to participate in or inform these broad debates.

The Theoretical Task

The first task in developing the positive features of a stakeholder theory is to define who *stakeholders* are and how a *stakeholder firm* differs from a conventional American-style shareholder-wealth-maximizing firm. We develop these definitions here and summarize the key distinguishing features of shareholder and stakeholder firms in Figure 1.

Stakeholders

The question of who or what constitutes a stakeholder is perhaps the most frequently debated issue in the literature on this topic (Stanford Research Institute 1963, Evan 1978, Freeman and Reed 1983, Freeman 1984, Evan and Freeman 1988, Donaldson and Preston 1995, Hosseni and Brenner 1992, *Business and Society* 1994, *Business Ethics Quarterly* 1994, Phillips 1997, Mitchell et al. 1997, Rowley 1997). Some approach the definition from an ethical standpoint: Who should be viewed as a valuable stakeholder? Freeman (1984) takes this perspective by defining a stakeholder as any group that affects or is affected by a firm's performance. Others (Post et al. 1996) criticize this as too broad to be of analytical value. We agree, and prefer a narrower approach, building on Mitchell et al. (1997) and Frooman (1999), that captures the saliency or level of influence of potential stakeholders. Saliency or influence is a function of (1) the extent to which potential stakeholders contribute valued resources to the firm, (2) the extent to which they put these resources at risk and would experience costs if the firm fails or their relationship with the firm terminates, and (3) the power they have in or over an organization. Contributing valued resources creates incentives for others to recognize a potential stakeholder, while putting resources at risk gives one a moral claim to stakeholder status. Thus, both of these features lend legitimacy to potential stakeholder claims. Having power provides the means to assert one's interests, however, without the other two features, a powerful group may not be perceived as legitimate by other stakeholders. Possessing any one of these three makes a group a *latent* stakeholder however, an influential or, in their terms, *definitive* stakeholder, must be high on all three dimensions.

Because a stakeholder's position can also change over time, it is important to examine the behavior of a firm over time. Taking this approach transforms the question of who is a stakeholder into an empirically tractable question of how much influence any potential stakeholder will have in an organization. We adopt this formulation of a stakeholder in this work. While we will suggest that employees at Saturn were designed into the firm as definitive stakeholders, their current and future positions are more uncertain, reflecting a decline in their influence as conditions changed in the auto industry and in the parent

Figure 1 Key Distinctions Between Shareholder and Stakeholder Firms

Attribute	Shareholder Firm	Stakeholder Firm
Goal(s)	Maximize shareholder wealth	Pursue multiple objectives of parties with different interests
Governance Structures and Key Processes	Principal-Agent Model: Managers are agents of shareholders. Control is the key task.	Team Production Model: Coordination, cooperation, & conflict resolution are the key tasks.
Performance Metrics	Shareholder value sufficient to maintain investor commitment	Fair distribution of value created to maintain commitment of multiple stakeholders
Residual Risk Holders	Shareholders	All stakeholders
Stakeholder Salience/Influence	Finance/investor/owners only stakeholder with sufficient power and legitimacy to achieve "definitive" status in governance processes	More than one stakeholder with sufficient power and legitimacy to achieve "definitive" status in governance processes

organizations that created Saturn. This again makes Saturn a useful case study in the dynamics of stakeholder relations.

Stakeholder Firms

Goals. Less progress has been made in defining the attributes of a *stakeholder firm.* Most of the literature simply argues it is up to *management* to choose what weight to give to multiple stakeholders and thereby bypasses the question of whether the legal foundations or the goals and governance processes of the corporation influence this issue. Yet the questions of what goals a firm should pursue and whose interests should be reflected in its governance processes lie at the heart of the normative debate over whether stakeholder or shareholder-maximizing models of the firm are in the best interests of society (Friedman 1970, Freeman 1984). We suggest organizations might be arrayed along a continuum depending on the primacy given to the singular goal of maximizing shareholder wealth versus being designed to pursue different objectives of two or more stakeholders. The publicly held American corporation thus stands at one extreme by operating under a set of legal rules and a deeply embedded ideology and power structure that reinforces the view that the purpose of the corporation is to maximize shareholder wealth. Other for-profit organizations in the United States (e.g., partnerships, privately held firms, cooperatives, etc.) and in other countries, however, operate under different legal rules that give greater salience to the interests of other stakeholders. In the wake of the rise of hostile takeovers in the 1980s, a number of states, for example, changed their corporate charter statutes to allow firms to take community interests into account in merger or acquisition decisions, thereby departing from the pure shareholder-maximizing view of the firm (Useem 1996). In Japan and Germany, employees are afforded significant stakeholder status and rights in public corporations (Aoki 1988, 1990, Wever 1995). Thus, the goals embedded in the legal structure and/or the chosen mission of a firm provide the starting point for distinguishing between shareholder-maximizing and stakeholder models. The key distinction is that a stakeholder firm has multiple objectives rather than a single superordinate goal. Whether, however, a stakeholder firm achieves joint maximization of the different objectives (i.e., whether it is more efficient than a pure shareholder model because it both raises shareholder returns and achieves other stakeholder objectives), matches the shareholder returns of conventional firms and achieves other stakeholder objectives, or redistributes a portion of shareholder returns among different stakeholders is ultimately an empirical question, depending on the firm's performance and on how its profits are distributed.

Governance. In a pure shareholder-maximizing firm, owners invest and risk their capital, and members of management serve as agents who are held accountable for using these resources in the owners' interests. The shareholder-maximizing model is premised on the notion that owners risk their investment capital and are the sole residual claimants, while other parties (e.g., employees) are compensated on the basis of their marginal products (i.e., paid wages set by competitive labor markets). The critical governance task therefore lies in controlling managers and other organizational participants to ensure that they act in the owners' interests (Hart and Moore 1990). In practice, investors and the courts allow managers considerable discretion over how to carry out their responsibilities. This leads to variation in managerial behavior and organizational strategies. But ultimately, managers decide these issues because they are legally accountable to shareholders.

In contrast, because in a stakeholder firm multiple stakeholders risk their "investments" to achieve their goals, they each have a legitimate or moral right to claim a share of the value created or the residual resources of the firm (Blair 1995). These different interests therefore need to be reflected in the organization's governance structure and processes and in the performance outcomes and metrics the organization needs to meet. For a stakeholder firm to be viable over time, it must demonstrate its ability both to achieve the multiple objectives of the different parties and to distribute the value created in ways that maintain their commitment. Thus, while in a shareholder firm the critical task is one of ensuring control—principals need to control the actions of their agent-managers, and managers need to control the actions of employees—the critical governance tasks in a stakeholder firm are to ensure effective negotiations, coordination, cooperation, and conflict resolution to maximize and distribute the joint gains among multiple parties of interest. From a game theory perspective, the task shifts from a principal-agent (Hart and Moore 1990) to a team production problem (Alchian and Demsetz 1972).

Figure 1 summarizes the distinctions between a shareholder and stakeholder firm as defined here. The key distinctions relate to differences in goals, governance processes, and performance metrics. To qualify as an influential stakeholder a group must bear significant residual risks, contribute valued resources, and have sufficient power to affect organizational outcomes.

These definitions are stated as "ideal types" to contrast the qualitative differences between shareholder and stakeholder firms. In practice, a variety of firms such as cooperatives, partnerships, privately held companies, and even some public corporations, may lie somewhere on a continuum between pure shareholder and pure stakeholder models, depending on the extent to which these features are present individually and collectively.[1] Taking this more modest approach provides a way of operationalizing the concept of a stakeholder firm and examining the dynamics of firms with some or all of these attributes.

Beyond these definitional issues, what questions should a stakeholder theory address? We believe the most critical questions lie in explaining what it would take for stakeholder firms to emerge, perform effectively, survive, and be sustained over time. These questions are essential to answering the critique that advocates of stakeholder theory hear most often, namely: Why, if this is a desirable organizational form, don't more firms that embody these features exist, particularly in the United States? In what follows, we break these general questions down into the following discrete components and apply them to the Saturn case: (1) What conditions allowed Saturn to emerge as a stakeholder firm, and to what extent do these conditions generalize in ways that might lead to the emergence or formation of other stakeholder organizations, (2) what were the key organizational features (governance, design, internal processes, etc.) that affected Saturn's performance and to what extent are these critical to the performance of other stakeholder firms, and (3) what obstacles in the U.S. legal and business environment did Saturn encounter, and to what extent will these limit the sustainability and diffusion of this organizational form in the American environment?

Methods and Data

Our data are drawn from a long term multimethod research project with the Saturn Corporation and UAW Local Union 1853. Since Saturn's inception, we have tracked its history through a mix of interviews with key union and management officials, surveys and focus groups with employees at different levels of the organization, a network analysis of communication patterns and their effects on performance, and a series of participant observation activities including feedback sessions, training seminars, and problem-solving workshops.

From 1990 to the present time, we have conducted over one hundred in-depth interviews with Saturn executives, union leaders, represented and nonrepresented managers, and rank-and-file workers. We attended meetings of Saturn's governing bodies—the Strategic Action Council (SAC), the Manufacturing Action Council (MAC), and the joint union-management "decision rings" in each business unit/plant. These observations were supplemented by working on the assembly line, attending union "congresses" and module decision rings across the site, participating in union leadership off-site planning sessions, and attending seminars and meetings with management and union officials.

Ten one-hour focus group interviews were conducted with a stratified (by business unit and shift) random sample of assembly line and maintenance workers and module advisors in May and June of 1994. We audiotaped the interviews and then transcribed the tapes, coding the dialogue to reflect both the common themes that emerged and the differences in points of view expressed (Glaser and Strauss 1967). The network analysis draws on data collected in 1993 (Rubinstein 2000). From the beginning we periodically fed back our preliminary results and worked with Saturn leaders in using these results to address issues and problems identified.

Thus, the data for this study come from a triangulation (Jick 1979) of methods including historical interpretation based on interviews with the founders, current leaders, and employees of Saturn; direct participant observation and intervention in the partnership; interview and field notes, survey data collected by the local union and/or the company's organizational development group, and survey and network analysis data collected as part of our own research program. As such, our methods reflect those needed to generate a grounded theory (Glaser and Strauss 1967), and are similar to what Sutton (1997) describes as *closet qualitative methods* because some of the insights and inductive reasoning that follow are based on our personal experiences and observations, as well as on more formal data collection methods.

Saturn: "A Different Kind of Company"

We begin by introducing the key features of Saturn that make it an appropriate case for this exercise. Table 1 presents a timeline of critical events in Saturn's history to date. Saturn is a wholly owned division of General Motors (GM) with manufacturing operations in Spring Hill, Tennessee that produce sedans, coupes, and station wagons for the small car market, primarily for sale in North America and Japan. It currently employees over 9,500 white- and blue-collar workers, approximately 7,300 of which are members of the United Automobile Workers (UAW). Production began in October 1990, and by 1996 volume had expanded to approximately 314,000 vehicles. In 1997, as demand declined, production was reduced to 210,000 vehicles.

Saturn's structure, governance system, and organization of work were designed jointly by representatives of the UAW and GM. As shown in Figure 2, the company's "Mission Statement," crafted jointly by the union and

Table 1 Partnership Evolution and Development

1982:	GM Small Car Study
1983:	Joint GM/UAW "Committee of 99" Study World Class Manufacturing
1985:	Memorandum of Agreement on Saturn Corporation
1986:	Joint Supplier Selection Begins First UAW Hiring
1987:	Approval of Initial $1.9 Billion Saturn Capitalization by GM Board of Directors
1988:	Addition of Jointly Selected UAW Module Advisors as Partners
1989:	Addition of Jointly Selected UAW Crew Coordinators and Staff Partners
1990:	First Car off the Line First Local Union General Election
1993:	Local Referendum on Partnership Second Local Union Election Third Member-to-Member Survey
1994:	Saturn Integrated into GM's Small Car Group Agreement Renewal Process Results in Establishment of 14 Elected Crew Coordinators
1995:	Election of 14 Crew Coordinators with Authorization to File Grievances
1996:	Mike Bennett Resigns as Local Union President, Retaining Position as MAC Advisor GM Announces Saturn Expansion to Wilmington Assembly Plant
1998:	Rank and File Vote to Retain Partnership Negotiations produce agreement to Source SUV in Spring Hill and Continue UAW Role in Sourcing Decisions
1999:	Incumbent union officers defeated by an alternative slate of candidates.

company, reflects the multiple interests each had for creating this firm. GM's objectives were to build small cars competitively in the United States in a new way (vehicles that would be leaders in quality, cost, and customer satisfaction) and to learn from Saturn's innovations. The UAW's primary objectives were to create good jobs for UAW members and other American workers that otherwise would have gone to lower-cost workers overseas. Thus, at the outset, Saturn's stated objectives were consistent with this aspect of the definition of a stakeholder firm presented above.

Figure 2 Saturn Mission Statement

The mission of Saturn is to market vehicles developed and manufactured in the United States that are world leaders in quality, cost, and consumer satisfaction through the integration of people, technology, and business systems and to transfer knowledge, technology, and experience throughout General Motors Corporation.

The union serves as a joint partner in managing the organization from the bottom to the top of the company through a system of online comanagement involving approximately 400 full-time union members, and through a structure of offline joint committees at the company, site, business unit, and department levels. Supplier, retailer, and customer relationships are based on the same partnership principles as are employee-management relations. For example, the company's marketing strategy, captured in its advertising slogan, "A Different Kind of Company, a Different Kind of Car," places tremendous emphasis on achieving and maintaining high levels of customer satisfaction and loyalty. The trust and commitment embedded in the retailer-producer partnership are essential for retailers to develop the same level of trust and partnership with customers. A key component of Saturn's intent to do this is its fixed price, "no haggle" sales practice. To avoid the temptation of an individual dealer to defect from this strategy requires overcoming a classic prisoner's dilemma bargaining problem by structuring the incentives and the culture of the relationship in ways that allow both the manufacturer and the retailers to prosper. Similarly, Saturn uses single-source suppliers linked to the company with long-term contracts, and thus suppliers become a more critical resource to the company than in the more traditional settings where the company purchases parts from multiple competing vendors. Thus, while in this paper we will focus on employees as stakeholders, the propositions developed here could potentially be applied to these relationships as well. However, this task lies beyond the scope of this paper.

Thus, Saturn's governance structures also reflect a stakeholder model by providing employees (and perhaps other stakeholders) with a direct voice in key decisions. As such, it may represent a particular type of stakeholder firm. Several of what appear to be distinctive, perhaps even unique or idiosyncratic, features should be kept in mind. First, employees collectively and their union serve as key stakeholders. They were an important force in motivating its formation, and they play key roles in the firm's internal operations and governance processes. Second, Saturn is not a totally autonomous organization. It remains a part of its GM and the UAW parents, and it competes for resources and support within this particular organizational and institutional setting. Third, as we will note, the original features of Saturn have evolved over time in response to various crises, conflicts, changes in leadership at Saturn and within its parent organizations, and changes in market conditions. Whether the original design that embodied stakeholder features will continue in the future, indeed, whether Saturn itself will survive as a separate organization, are both highly uncertain. These dynamics make it all the more useful as a case for observing the features that gave rise to the emergence, influenced the internal operations and performance, and are now threatening the sustainability of this particular type of a stakeholder firm in the American environment.

Propositions and Case Illustrations

In an effort to build a general theory, the conceptual arguments pertaining to each of the three questions are first presented in a general enough way to apply to any potential stakeholder (e.g., suppliers, retailers, communities, etc.). From these general statements, we derive specific propositions for the special case of employees and then illustrate them with examples from Saturn's history to date. We return to the more general case in the Discussion section.

Question 1: When Do Stakeholder Firms Emerge?

As noted earlier, in recent years investors and other external financial agents and institutions have grown in influence and reinforced the dominance of the shareholder-maximizing view of American firms (Useem 1996). However, both conventional management researchers (Berle and Means 1932, Chandler 1977) and stakeholder theorists who are rooted in business ethics or organizational behavior argue that managers have (or should use) considerable discretion to balance the needs and interests of multiple stakeholders (Freeman 1984, Donaldson and Preston 1995, Mitchell et al. 1997). In this view, managerial values and leadership styles determine whether or not stakeholder principles will be emphasized. Little attention is given, however, to why some CEOs would adopt a stakeholder perspective, or what structures or incentives determine whether or not this leadership style is supported or institutionalized in ongoing organizational operations and through leadership successions.

In contrast, strategic choice (Child 1972), institutional (Selznick 1949, DiMaggio and Powell 1983, DiMaggio 1988), resource dependency (Pfeffer and Salancik 1978), and industrial relations (Kochan et al. 1984, Kochan et al. 1986) perspectives on organizations all agree that leaders, i.e., those who control the decisions over how to attract and maintain resources needed from the environment, have some discretion over what weight to give to different environmental forces. But these models also emphasize the importance of the relative power of those forces. Thus, while the values and leadership styles of top management are likely to be important, a focus on leadership of top management alone is unlikely to explain when stakeholder interests other than those of the shareholders to whom management is legally accountable will emerge as influential. Therefore, we see leadership values as a necessary, but far from sufficient, condition for stakeholder firms to emerge.

We suggest three additional conditions are needed if other stakeholders are to gain sufficient influence to challenge the centrality of finance capital in the modern firm. First, like financial investors, these potential stakeholders will need to supply critical resources or assets to the enterprise. Second, the value of the assets must be affected by the fate of the enterprise so that its owners can legitimately claim a "property right" (Williamson 1985, Hill and Jones 1992) for putting their assets at risk, equivalent to the property rights granted to financial investors. And, third, would-be stakeholders will need to amass sufficient power to challenge the privileged position investors and their agents have achieved in organizations. How then do these conditions relate to employees as potential stakeholders?

Knowledge Assets. Some argue that the value added by the knowledge and skills of the workforce may now be the most critical asset and source of competitive advantage (Drucker 1980, Thurow 1996, Arrow 1996). Thus, in especially "knowledge intensive" professional services such as law, health, and consulting, organizations often take the form of partnerships (Landers et al. 1996). Regardless of the organizational form chosen, key executives or high level professionals who possess critical technical skills or knowledge may also have sufficient *individual* bargaining power to command influential stakeholder status. But some *collective* means of mobilizing knowledge is likely to be needed for the larger number of workers whose potential value added is more likely to come from their joint efforts. However it is achieved, as knowledge becomes a more critical asset or source of strategic advantage, organizations can be expected to implement various types of explicit or implicit partnership arrangements which serve to treat employees as critical and influential stakeholders. Thus, an initial necessary (but not sufficient) requirement for employees to become influential stakeholders is that the knowledge they possess is a critical asset to the firm.

Specific Human Capital. As suggested in our stakeholder definition, contributing valued assets is only part of the requirement for gaining legitimacy as a stakeholder. Understanding what employees have at risk requires consideration of the role of specific human capital and the compensation system found in a firm. Blair (1995) argues that the shareholder-maximizing model assumes employees are paid wages determined by competitive labor markets. However, in organizations where employees either receive a wage premium for their specific human capital and/or are compensated in part based on firm performance, employees bear residual risks similar to shareholders. In the former case, the risk lies in the costs of job loss because the employees would not be able to fully replace their current wage in the external labor market. In the latter case the risk lies in the variability of employee income that is due to variations in firm performance. Thus, we might expect that employees will express a strong interest in gaining stakeholder influence in settings where they are sharing residual risks. One typically sees this interest expressed directly when employees purchase or negotiate an ownership stake in their firm (Blasi and Kruse 1991). However, if Blair's arguments are correct, a broader demand for stakeholder rights exists among employees who have built up stocks of specific human capital in their firms.

Leadership and Power. The degree of legitimacy and influence is not predetermined by natural market forces; it is partly a strategic choice and partly a politically or legally constructed phenomenon that reflects the environment at the time of the organization's founding or major restructuring (Stinchcombe 1965). For example, American and British occupational forces insisted on giving employees strong stakeholder rights in postwar German and Japanese firms as a partial safeguard against a return to fascist or militaristic regimes and institutions (Aoki 1988, Wever 1995). Building on this base, the corporate forms found in these countries then evolved out of labor and management conflicts and political debates that occurred in each country in the early postwar years. This contrasts to the more stable political environment that dominated as the large public corporation in need of capital emerged in the United States. To change the embedded roles of employees or investors that have evolved out of these different environments will therefore require a shift in power, ideology, and perhaps law.

Collective power is likely to be especially important for U.S. workers who lack sufficient human capital or other sources of bargaining power to gain influence as individuals. Unions have historically served as an instrument for mobilizing the collective power of workers, but American laws, institutional structures, and norms governing employment relations make it exceedingly difficult for employees collectively to influence directly the critical governance decisions of a firm. American labor law draws a clear line of demarcation between the roles of management and workers. The conventional norms of collective bargaining serve to reinforce this functional separation. Management wants to protect its rights to make strategic decisions free of union involvement or interference, and union leaders want to retain their independence to challenge management and avoid being coopted into unpopular managerial decisions (Slichter et al. 1960). More recently, however, some U.S. unions and companies have attempted to transform their relationships in ways that encourage employees and their representatives to add value to the enterprise by participating in decision making and thereby deriving rights and influence over the distribution of the firm's results (Kochan et al. 1986). This approach requires both a union with considerable power, and leadership perspectives (on the part of both labor and management leaders) that recognize the potential value to be gained from employee participation and a labor-management partnership.

We now turn to the history of Saturn's emergence out of the GM and UAW relationship to illustrate these initial propositions for how a stakeholder firm might emerge in the American context.

Saturn's Emergence. The interactive role of leadership and power can be seen in the factors that led to the decision to create Saturn and the joint study process that produced the firm's initial design features. In 1982 GM's engineering staff conducted a study that concluded that under existing management practices and labor-management relations the company could not profitably build small cars in North America. GM faced an estimated $2,000 cost disadvantage relative to its Asian competitors, with $500 of that amount attributed to the labor and benefit cost structure of the GM-UAW National Agreement. Therefore, GM formed a joint alliance with Japanese and Korean producers to import cars for this market segment.

Concern over the loss of these (and other) jobs in the United States was building in the early 1980s as GM's market share declined. Yet nothing in the parties' collective bargaining agreement at that time limited the company's ability to outsource small cars to another country or to close plants and lay off workers if product demand or market share declined. The UAW's power to stem the loss of jobs, traditionally exercised through collective bargaining, likewise declined as nonunion and/or foreign competitors made it more difficult to negotiate new provisions that would reduce the gap in labor costs with nonunion and/or foreign competitors. Any response would have to come through some other means. Moreover, the visible successes of Japanese production and labor management systems, along with the lessons GM and the UAW were learning from incremental experimentation with employee participation and team-based work systems (Katz 1985) convinced at least some within the union and the company that there were better organizational and labor-management models, if only they could be achieved somehow within the GM and UAW relationship. This combination of pressure and shared view about what might be a direction for the future of labor-management relations led Alfred Warren, the vice president of labor relations at GM, and Donald Ephlin, the vice president of the UAW for the GM Department, to propose formation of a joint study team to explore whether it would be possible to design an organization and employment system capable of producing a small car competitively in the United States with American workers under a UAW contract. What became known as the ''Committee of 99'' (it involved 99 managers, engineers, technical and financial specialists, production workers, and union representatives) ultimately recommended a radically new organizational form in which work would be organized into teams, work rules would be drastically simplified, and the union would be a full partner in decision making from the bottom to the top of the organization (Rubinstein et al. 1993, O'Toole 1996).

There was considerable opposition to these ideas within the UAW executive board since the design proposed for Saturn deviated from traditional seniority, compensation, and work organization principles, and took the union into the management and governance process in ways that traditionalists felt would jeopardize the union's independence. Ephlin, however, took the proposal to the UAW executive board, staked his reputation and future within the union on it, and got it accepted in a divided vote. Clearly, without Ephlin's strong personal leadership and the recognition that traditional strategies and sources of power had not been successful in stemming the loss of jobs, the UAW would not have ratified the agreement with this new role for the union (O'Toole 1996).

The ''willingness'' of GM to agree to recognize the union in this new organization is a clear testimony to the union's power. Voluntary recognition of a union in a greenfield site is extremely rare in the United States and tends to occur only where a company is already highly organized, negotiates centrally with a single dominant union, and would experience significant costs to its labor relations strategies in existing facilities if it attempted to follow the more typical U.S. corporate ''union avoidance'' strategy (Kochan et al. 1986). GM had tried the union avoidance strategy in the 1970s but abandoned it after the UAW threatened to withhold its cooperation with employee involvement in existing facilities (Katz 1985). Thus, the power of the UAW, and the prospect of a new type of partnership the company believed it needed, not only in this greenfield site but in all of its operations, carried GM's decision to allocate the capital needed to create Saturn. This was also highly controversial within GM, and required the personal championing not only of Warren, (the VP of labor relations) but also of CEO Roger Smith. Smith was close to retirement and made a point of saying to his colleagues on GM's board that he wanted to drive the first Saturn off the line before he retired. (He did). He saw Saturn as a key learning laboratory for the rest of GM. In a 1991 interview he described Saturn's goal as:

> Improving the efficiency and competitiveness of every plant we operate . . . Saturn is the key to GM's long-term competitiveness, survival, and success as a domestic producer.

Local leadership was also critical to implementing these design features once they were approved by GM and the UAW. Richard (Skip) LeFauve, Saturn's president from 1986 to 1995, was widely recognized as an enthusiastic and effective advocate of the partnership organization. He described his approach to the partnership as an effort by the union and management to balance one another in the running of the business. To LeFauve this meant full inclusion to allow for ''shared ownership of the decision itself'' as well as for better outcomes.

Michael Bennett, the key leader of UAW Local Union 1853 from its inception until 1999 also envisioned a role for union leaders in what has traditionally been management's responsibilities:

> Now there is a difference in my mind about management and managers . . . The union and managers practicing management, balancing the needs of the people and the needs of the business, and then both being held accountable and responsible for the output with regard to those two elements is what is needed in this process. I want to have as much responsibility, and as much accountability, for the quality of this product and the price of this product, as I do for the human side of this with regard to the wages and benefits we are paying people, and the working conditions that they are part of.

Leadership was important to creation of this stakeholder model. However, in this case leadership within the union was as important as leadership within the company. Without the presence of a union able to assert its voice in the strategic decisions that were necessary to embark on, approve, and implement this project, the stakeholder design would not have evolved. GM would have continued to import small cars from its international partners. But the dual responsibilities as expressed in the quote from Bennett are particularly difficult for union leaders.[2] Adopting this approach requires them to balance their roles in advocating workers' specific interests and accepting responsibility for decisions in which they participate that are in the interests of the collective body of stakeholders, but may not be preferred by their members. Going too far in either direction will destroy the leader's credibility. If a union leader gets co-opted into supporting management's policies, the membership will revolt or elect a new leader. Taking only an advocacy position for its particular stakeholder interests, or failing to add value to and accept responsibility for strategic decisions risks losing legitimacy in the eyes of other stakeholders. As will be noted below, the internal opposition within both the union and company (and the larger business and labor communities) did not go away, and would continue to affect the evolution and sustainability of this enterprise.

Saturn's design relied heavily on the use of the skills and knowledge of employees. The need to gain greater value from production workers' knowledge and skills than it was getting in its existing small car operations was apparent to GM, given its estimated cost disadvantage. Thus, to build a small car competitively in the United States, either costs (wages) had to be lowered or organizational productivity raised to make up the difference. Its architects also understood this, since the UAW insisted that wage and benefit levels for any new operation be equivalent to the UAW standard rates included in the national contract covering workers in other GM plants. Thus, the only way to make up this difference would be to mobilize the knowledge, skills, and commitment of the workforce, and to design the work systems and organization in ways that achieved higher quality and productivity.

To achieve high levels of skill development, the original design called for new Saturn employees (all UAW members who transferred from other GM plants) to receive from 350 to 700 hours of initial training. In 1991, recognizing the need for additional training, the union proposed linking training to the yearly risk and reward compensation plan. Since then, every Saturn employee's pay has been tied to an organizationwide goal of obtaining at least ninety-two hours of additional training each year. Saturn employees have averaged 148 hours of training each year since 1991.

The risk-reward compensation system, along with the high base wages and benefits of autoworkers, make employees residual risk holders at Saturn. Base compensation is tied to 88% of the industry average, however, additional rewards are contingent on meeting negotiated quality and productivity performance criteria. Besides putting twelve percent of a union member's normal base pay at risk, the compensation system provides a reward-sharing component that can (and has to date) produced bonuses when the firm meets negotiated performance targets. The terms of the 1992 contract renewal made the risk portion of pay contingent on completion of training and established a reward portion based on quality, output, and profitability goals that produced bonuses of $2,600 in 1992, $3,000 in 1993, $6,000 in 1994 and $10,000 in both 1995 and 1996, and $2,015 in 1997. Moreover, workers who transferred to Saturn from other GM plants would experience substantial economic losses if this organization failed, because they were required to quit GM and give up their seniority and recall rights to bid on transfers to other GM plants in the future. Therefore, if Saturn failed, these workers would need to find alternative jobs in the external labor market—jobs that would not likely match their current wages or benefits.

Thus, employees at Saturn meet the criteria for being residual risk bearers. This in turn motivated employees to both assert their interests as stakeholders in the management and governance processes at Saturn, to value this role, and to speak out as threats to the organization arose. For example, in our focus group interviews we consistently found that the vast majority of Saturn workers valued the voice they have in problem solving and corporate decision making, and preferred this type of labor-management relationship to the conventional relations they experienced in other GM plants. In a 1993 survey of the entire membership, the union found that 84% responded very positively about Saturn and its direction, while only 10% expressed negative views. In March of 1998, in response to growing rank-and-file concerns over the future of Saturn (and their future employment security), the union held a referendum over whether to stay with the partnership model or to negotiate a return to coverage under the more traditional national UAW-GM contract and thereby try to regain the option to bid on job openings in other parts of the GM system. The membership voted 67% to 33% in favor of continuing the partnership, but it also sent a strong signal to both union and management leaders that it was deeply concerned with the declining prospects for Saturn. Clearly, the rank and file understood what they would lose if Saturn failed, yet the majority did not want to return to the traditional labor-management or organizational model. Thus, in organizations that choose a stakeholder design in which employees share significant residual risks, employees themselves are likely to demand a voice in the strategic decisions and governance processes that affect the long-term future of the firm. Whether or not they have the power to build these features into the initial or evolving organizational design, however, depends on their collective power and representation when the initial decisions are made.

In summary, Saturn emerged as a stakeholder firm because the company and union leaders who shared power jointly decided to create an organization for the purpose of producing small cars competitively and creating new jobs for American GM workers and UAW members. To make this new organization viable, they designed it in ways that would utilize the skills and knowledge of employees, share in the resulting risks and rewards, and provide employees with a voice in the governance process.

Question 2: What Are the Critical Features Needed to Make a Stakeholder Firm Succeed?

Given that a firm adopts a stakeholder organizational form, what features of its internal governance and operational processes or tasks are most critical to its success? A stakeholder firm is composed of, legitimates, and gives voice to the existence of multiple interests, each of which has goals that must be satisfied. Because the activities of the stakeholders are highly interdependent and power is more widely dispersed across groups and throughout the hierarchy, there is a high potential for both conflict (Schmidt and Kochan 1972, Jehn 1995) and for enhancing performance through coordination within and across groups or teams (Aoki 1988, 1990, Cohen and Bailey 1996). Thus, the critical organizational tasks for a stakeholder firm lie in (1) mobilizing the stakeholders to commit their assets in ways that contribute to performance, and (2) coordinating efforts and resolving conflicts that arise when multiple interests share power.

Use of Discretionary Knowledge and Effort. To be influential stakeholders, employees must add value by using their knowledge and discretionary efforts to enhance firm performance. This can take different forms, such as improving productivity and quality through continuous improvement efforts, contributing to the innovation process by creating new products, reducing the time required to bring new products to the market, etc. The key feature, however, is that employees remain motivated and committed to contributing to firm performance, and do not fall into behavior patterns described in the classic studies of group norms (Chinoy 1955, Roy 1952), which produce standard or accepted production rates that are enforced by the group and in which ''rate busters'' are penalized. The organizational governance features obviously play a role in shaping these norms and will be discussed below, however, collective and individual employee attitudes and behavior also influence effort norms and behavior.

Aoki's (1988, 1990) characterization of the Japanese firm, together with models of high performance work organizations (Lawler 1986, Ichniowski et al. 1996) and labor management partnerships (Kochan et al. 1986), provide a clear conception of the governance structures and employment practices needed in firms in which employees are influential stakeholders. Aoki describes the Japanese corporation as a coalition between shareholders and employees, with managers serving as mediating agents. Shareholders receive their returns through a combination of long-term capital gains, interest on debt securities, and income from direct sales to the firm. Employees receive employment security, wages tied to seniority and performance, and retirement benefits that reward long service. Shareholders and employees have a common interest in organizational growth and stability. Human resource practices support pursuit of these shared objectives through heavy investment in on-the-job training, employee suggestion systems and quality circles, and extensive labor-management consultation. Information exchange is critical to this type of organization, and horizontal coordination substitutes for traditional hierarchical control.

Similarly, the literature on high performance work organizations stresses the importance of having a system of interdependent human resource practices and organizational processes that complement and reinforce each other (Milgrom and Roberts 1992) in ways that contribute to and sustain a shared commitment to both firm performance and to employees' long-term job and financial security. Labor-management partnership models stress the need for joint efforts at all levels of the enterprise.

The Role of Conflict and its Resolution. Conflicts can more readily be surfaced in stakeholder firms that in the past were suppressed by either an imbalance of power or by limiting interactions among these parties through hierarchical or functional specialization. These conflicts can either be constructive in that they identify individual concerns and organizational problems that need to be addressed in order to maintain commitment and improve performance, or, if not resolved satisfactorily, can generate conflict traps and produce a recurring cycle of low trust and high conflict (Fox 1974, Jehn 1995). Thus, while we obviously are not arguing that conflict and its resolution are unimportant in other organizational forms, we are suggesting that effective conflict resolution becomes a more important, and perhaps the most important, organizational process affecting performance variations in a stakeholder firm. How conflicts are surfaced and dealt with, therefore, are critical issues.

Unions or other forms of collective representation can provide a means of aggregating, giving voice to, and resolving differences in interests within an organization. But how a union performs this function must change substantially if it is to contribute to the success of a stakeholder firm. While unions must continue to be accountable for representing their members' economic and other interests, they also need to add value to the enterprise by facilitating employee participation and voice, and by bringing different or new substantive ideas, information, or expertise to bear that improve the quality of decision making. In return for a voice in management, union leaders are expected to accept greater responsibility for organizational decisions and performance. The role of union leaders thus becomes one of both representing members' interests in negotiations, and facilitating worker involvement and voice in decision making on a more continuous basis at more varied organizational levels with a wider array of management officials than is typically the case in a traditional collective bargaining relationship. This becomes a difficult balancing act, one that few union leaders have been successful in carrying out over extended periods of time. Thus, union leaders can expect to encounter significant political risks in adapting to their new roles in stakeholder firms.

In summary, for a stakeholder firm to function successfully, employee discretionary efforts need to be mobilized, high levels of communication and coordination are needed across groups and functions, and conflicts need to be surfaced and resolved effectively. Given the multiple interests that share power, conflict resolution is likely to be an especially critical function in stakeholder organizations.

Saturn's Governance Processes in Action

As noted earlier, multiple features of Saturn's organizational design and employment system facilitate use of discretionary effort, communications, and conflict resolution. Work is organized into teams that its labor agreement describes as the "basic building blocks" of the organization. "Decision-rings" or labor-management committees support consultation and joint decision making. Recruitment and selection of employees and suppliers is done jointly by the union and management. The reward system is designed to provide incentives to pursue common goals, and information is expected to be broadly shared. The question, however, is: Have these design features been translated into worker behavior and organizational processes that in fact contribute to enterprise performance? Interest in this question led us to examine the comanagement and governance processes in action.

The Comanagement Process. At Saturn, the comanagement process, and particularly the role that union partners play in the management process, serves as a key arena for the lateral communications, coordination, and problem solving critical to this organizational form. The local union's internal structure and governance process created a large and dense social network of representatives located in key decision-making positions across the work units and the three plants in the Saturn manufacturing complex. As noted above, approximately 400 members serve as full-time partners to managers and/or as elected union officers at Saturn. The local union organized a large number of opportunities for these members to interact that went well beyond the sparsely attended union meetings typical of most local unions in the United States. These include such forums as biweekly "congresses," which all officers and appointed partners were expected to attend, and at which a mixture of local union affairs and issues related to the partnership and operations at Saturn were discussed, "one-on-one" member surveys in which leaders interviewed local union members about problems or issues at Saturn, weekly union leadership meetings, and joint governance meetings, as well as social activities such as softball and bowling teams, etc.

We observed a number of incidents in which these local union members and officers would draw on their networks to solve problems informally without going through normal hierarchical channels. This included rapid mutual adjustment between advisors in different departments and a willingness to take responsibility for localized decision making, indicating strong horizontal communication and coordination between comanagers.

In one instance, as GM experienced financial troubles in the early 1990s, pressures were put on Saturn to show it was working hard to cut costs. The union responded by organizing an intensive data collection effort from the workforce to solicit ideas for how Saturn could meet its production schedule, cost reduction, and quality improvement targets. The data were aggregated into 1,076 ideas and presented to a joint meeting of management and union leaders on the floor of one of the production facilities in a symbolic show of the workforce's and local union's commitment to making Saturn successful. Saturn management responded by moving a group of engineers from Detroit to Spring Hill to work with shopfloor teams in implementing these suggestions. In another situation, when the local union thought management was caving in to GM corporate pressures to push production volume regardless of its implications for quality, the union leaders had workers wear black armbands during a visit of top GM executives, symbolizing the fear that Saturn was abandoning its stated commitment to quality as a key part of its mission. As a result, both GM executives and Saturn CEO Skip Lefauve restated their commitment to Saturn's original mission and agreed to accelerate the plan for bringing a third crew on line to achieve the higher volume targets without sacrificing quality. Observation of examples like this led us to the view that the workforce and the union were together creating a dense social and communications network that was contributing to Saturn's publicly recognized successes in building cars of high quality that by 1992, to 1998, achieved customer satisfaction ratings higher than any other car built in North America (J.D. Powers, 1993–1998).

This view was supported by the results of the network analysis (Rubinstein 2000) conducted among these comanagers. The network analysis showed that (1) union and management module advisors participated in a communications network with their peers and with their management appointed counterparts, and (2) the more such communications occurred, the higher the quality performance of their modules (departments).

Conflict Resolution. Saturn has experienced considerable intraorganizational conflict over its history. One example of this was the 1992 "black armband" protest mentioned earlier. Another conflict occurred over whether to choose a GM plant as a supplier in the face of evidence indicating that a Japanese supplier could deliver the part with newer technology at a more favorable price. This problem was resolved when the union helped the GM plant acquire the Japanese technology to produce the product domestically. Other conflicts arose over difficulties encountered in implementing the 1993 operating plan which would bring on a third crew and reduce overtime, differences of view over how much autonomy should be afforded the separate business units (plants), concerns over how to evaluate the performance of module advisors, and disputes over the terms of employment governing contract employees working in the cafeteria.

The most serious conflicts experienced at Saturn to date occurred in 1998 in the wake of declining sales and production (and, therefore, declining bonuses) and rising concerns over long-term employment security because of a lack of commitment by GM to a new product for the Spring Hill facility. We will discuss these issues in more detail in the next section. For now it is sufficient to note that these issues were joined in two sets of negotiations in which the local union called on Saturn management and GM executives to revise the risk-reward formula in light of the declining demand for the original Saturn model and commit to a second generation product that would ensure the survival of the operations and provide employment into the future.

The local union also experienced considerable conflict with national union leaders, as well as internal political turmoil and debate over its role in the partnership as it sought to balance its role as a partner with its role as an advocate for employees' individual interests. Contract negotiations provided a forum where local and national practices and norms have come into conflict over issues such as length of the workday and workweek, shift premiums, absenteeism policies, the role of seniority, the election versus joint selection of module advisors, and the election of union representatives to handle grievances. In each case, the debate over whether to "allow" or "accept" the local union's proposal to depart from national patterns and practices centered around whether this would erode industry standards the union had fought hard to achieve and to enforce. Thus, the union at Saturn has interests and roles in the enterprise that need to be balanced against its historic principles and the shared interest in maintaining high labor standards throughout the industry.

Bennett was challenged by candidates from three opposition caucuses in union elections in 1993, 1996, and 1999. Survey data and our own observations at Saturn clearly showed a growing restiveness among rank-and-file members at Saturn throughout this time period. Our focus group interviews, as well as the union's internal member-to-member survey data, found that much of the concern reflected a feeling that while the union was doing a good job of representing the membership's collective interests through the partnership, it was not doing as well in carrying out its more traditional role in representing individual workers with particular concerns or grievances. As a result, the 1994 Saturn labor agreement negotiated by the international union provided for the election of a set of union representatives who would be responsible for handling member grievances in a fashion similar to the traditional grievance committee member role of other American unions (including the UAW). These data also showed that throughout this period a sizable majority of the membership continued to support the partnership and believed it was preferable to the traditional UAW-GM relationship, but they also wanted opportunities for more individual representation of their specific concerns. Concern over these issues peaked in 1999 when Bennett and his slate of officers were defeated and replaced with leaders who campaigned on a platform of continuing the partnership, but at the same time attending more aggressively to representing individual member concerns and grievances.

These various conflicts at Saturn had two notable features. First, they were rarely simply labor—management conflicts. Rather, they often involved shifting coalitions reflecting both different horizontal and vertical interest groupings, such as differences between the local and national union, between managers and workers located in the Spring Hill manufacturing operations versus engineers located in Troy, Michigan or GM executives, or among the three business units (plants) in Spring Hill. Second, neither these conflicts, nor those that did follow more traditional labor and management interest group lines, were resolved simply through a single negotiated agreement or unilateral management decision. The multiple forums for worker and union participation allowed conflicts to be surfaced openly and directly with management, and their resolution often involved building coalitions and seeking consensus among individuals and groups that did not necessarily conform to traditional union-management lines of demarcation. This in turn created internal tensions within and between the local and national union, pitting proponents of this new role for the union in the management and governance process against those who preferred a traditional arm's-length role. As we will see, this difference in leadership views has a significant effect on the sustainability of the stakeholder model.

How well has Saturn performed? Returning to goals stated in its Mission Statement, it clearly has done extremely well in meeting its quality and customer satisfaction objectives and in creating new jobs for American workers and UAW members. Productivity levels varied over time. In the mid 1990s our data, as well as industry benchmarking studies (Harbour and Associates 1995–99), showed Saturn's assembly productivity ranked number one or two among all GM plants from 1994 through 1996 and then, as volume levels declined (and employees were not laid off), productivity fell to slightly above the median GM plant. Productivity did not, however, reach the levels of the most ''lean'' plants in the industry. Profitability and returns to shareholders are more difficult and uncertain outcomes to assess. Indeed, there is disagreement among managers at Saturn and GM over how to measure Saturn's performance on these metrics. There is general agreement that between 1992 and 1996 Saturn achieved higher per vehicle operating profits than GM's other small car divisions. But there have been constant debates over how much of the initial capital investment should be allocated to Saturn versus GM corporate, and how much overhead for corporate services should be absorbed by Saturn. There is also debate over whether Saturn can meet its initial targets for return on investment at the scale of production its capacity will support. The original business plan called for 500,000 vehicle per year capacity, but that was scaled back to around 300,000 in the early 1990s as GM experienced its financial crisis. Thus, it seems safe to conclude that while Saturn has returned profits to GM shareholders, the rate of return on the investment may be falling short of expectations if Saturn is to be held fully accountable for all of the initial capital investment. This latter statement remains, as noted, controversial and uncertain within Saturn and GM. Moreover, cost and profitability performance clearly declined in recent years as the product aged and began to lose market share because employment was held constant despite these volume reductions. This is one of the reasons that conflicts over these issues intensified in 1998–99.

Question 3: Are Stakeholder Firms Sustainable in America?

Corporations are assumed to be going concerns that will live beyond the tenure of their founders or original participants. Legal rights, contracts, and procedures govern the transfer of ownership and responsibilities assumed by new entrants to the organization. Yet because stakeholder influence may be more variable and, at least in the United States at the moment, may lack a strong legal foundation, stakeholder models are more vulnerable to the turnover of key leaders. Employee-owned firms or partnerships often dissolve when the original owners or partners turnover, retire, or profit sufficiently from their investment that they are induced to sell their ''shares'' and allow the firm to be transformed into traditional ownership and governance arrangements. Shareholder-maximizing firms solve this problem by retaining control over the choice of new executives and by structuring their employment contracts to motivate them to enhance shareholder value. For a stakeholder firm to be viable over time, executive succession choices may need to be shared and the incentive structures under which they operate may likewise need to reflect the multiple interests of the different parties.

Moreover, any single enterprise is embedded in a larger normative and institutional environment where interest groups compete for legitimacy and power. Any proposed change in the relative influence or status of stakeholders in the corporation will therefore likely provoke a political battle, because it will challenge the prevailing ideologies regarding property rights and governance roles of different organizational participants.

Sustainability is likely to be particularly problematic for collective groups of employees as stakeholders. First, as noted earlier, prevailing labor law imposes a number of constraints by drawing a clear line of demarcation between the rights and responsibilities of ''employees'' and ''managers'' as both individuals and collective groups (Weiler 1990, Gould 1994). Second, there is a major debate within the labor movement in general, and within the UAW in particular (Parker and Slaughter 1988), over the wisdom and viability of the types of partnerships embodied in the transformed industrial relations model. Third, there is strong ideological opposition within business, and in the financial academic, press, and policy-making communities to increasing labor's voice and power in strategic and governance issues and processes within the corporation (Friedman 1970, *The Economist* 1996, *Business Week* 1996).

Thus, for a stakeholder conception of the corporation to survive over time and diffuse to significant numbers of enterprises, it will need to maintain the commitment of successive generations of leaders, and manage the political battles needed to change prevailing ideologies, laws, and norms.

Saturn's Struggle for Legitimacy and Survival. Saturn has elicited a rather schizophrenic response over the years from both its parent organizations and in its external relations. On the one hand, its success in the marketplace, profitability, and the receptivity of consumers and the general public to the ''A Different Kind of Company, a Different Kind of Car'' slogan it used in its advertising has made it very difficult for critics within GM to publicly criticize Saturn. *Business Week* (1992, p. 86) put it as follows:

> Saturn's sudden blast up the sales charts is heartening for it troubled parent. . . . Almost overnight, Saturn has become the highest quality American-made brand, with as few defects as Hondas and Nissans. It's stunningly successful at satisfying the customer, trailing only Lexus and Infiniti, according to researcher J.D. Power & Associates. So the auto maker clearly has a winner on its hands. Now the question is: Will GM know what to do with it?

On the other hand, significant resistance exists within GM to Saturn. The same *Business Week* article cited above contained the following comments on the reaction of executives within GM's Chevrolet unit:

> Call it a case of bad sibling rivalry. While wunderkind Saturn Corp. basks in the limelight with its hot-selling new cars, Chevrolet has been shunted aside. . . .''All that money that went to Saturn during the past half-dozen years and the other GM divisions left Chevrolet naked.'' (says a Chevrolet dealer) (p.90).

These views also limit the transfer of learning and innovations from Saturn to other parts of GM, even though one of Saturn's stated objectives was to serve as a laboratory for experimentation and learning for the corporation. For example, at a briefing of senior GM executives on the results of our network analysis we discussed how to get others in the company to learn from these data. Two comments demonstrate the essence of the problem. One executive said: "It's ironic but unfortunately true that Ford has learned more from Saturn than we have in GM." Another said:

> Is there some way you can present these data in a more generic form so that our managers won't know they are from Saturn? Once they know you're talking about Saturn, they'll just tune you out and say, 'they're different.'

Resistance is equally strong within the UAW international leadership. As noted earlier, Saturn is identified with the leadership of Donald Ephlin, the UAW vice president who led the effort to get GM to invest in this project and led the campaign to get the UAW Executive Board to approve the controversial provisions of the initial Saturn labor agreement. Ephlin subsequently retired from the UAW in part because of differences in philosophy with other top UAW leaders. The current president of the UAW has been critical of Saturn and opposes adopting the Saturn contract and model in other plants. The UAW international leaders argued against expanding the Spring Hill facility, and favored an alternative proposal to build vehicles under the Saturn nameplate in another plant that was scheduled to have excess capacity. In the face of this opposition, in 1996 GM decided to build the second generation Saturn in an older GM plant rather than approve the business plan from Spring Hill to expand and build the new model there. The corporation and international union agreed on this alternative and negotiated a local contract for this facility that embodies some of the teamwork principles found at Saturn (and a considerable number of other UAW local agreements), but kept the local agreement under the provisions of the national contract. The effect is to further isolate the Saturn local union in Spring Hill and to limit organizational learning and the diffusion of Saturn's version of a labor-management partnership.

A similar schizophrenic reaction to Saturn can be seen from external sources. For example, the Work in America Institute, a national nonprofit organization devoted to promoting new models of labor-management cooperation and work innovation, has sponsored an ongoing stream of study tours to Saturn for national and international groups. On the other hand, Saturn was deliberately not invited to testify before the national Commission on the Future of Worker-Management Relations that was charged with the task of updating labor law, because neither the national level labor nor the employer leaders who were consulted on which organizations should testify wanted to showcase Saturn (Kochan 1995). It was too controversial within both labor and business circles.

One of the most controversial features of Saturn's plan was that the company would voluntarily recognize the UAW in the new facility before any workers were hired. This provision was later challenged by the National Right to Work Committee, a national anti-union lobbying group, on the grounds that such prehire agreements violate the National Labor Relations Act. The case was eventually dismissed by the National Labor Relations Board in 1985, shortly after President Reagan described the Saturn partnership as the most important experiment in labor relations in the country. Extending voluntary recognition to the union before any employees were hired is generally illegal under labor law, even though the National Right to Work Committee lost this argument in this particular case. A number of other labor-management practices at Saturn clearly are inconsistent with the National Labor Relations Act. For example, the deep involvement of workers and union officers in managerial roles is inconsistent with the doctrine that there is to be a clear line of demarcation between bargaining unit members (workers) and supervisors (managers).

Managing in a fashion that supports and sustains the type of partnership described above requires a leadership philosophy and style that is not often found or rewarded within American management or labor circles. By 1996 LeFauve, Saturn's president, had left (first to a new position in GM and then to retirement). While his successor espoused support for the partnership principles, Saturn's independence from GM gradually eroded, and he was not able to gain the same level of confidence or support from his union partners as his predecessor enjoyed. How the replacement of Bennett and his caucus by a new set of union officers will affect the partnership remains to be seen.

Some of Saturn's autonomy has been lost in recent years as it was integrated into GM's newly established small car group. As part of this integration GM has begun to further limit Saturn's independence by planning to converge it with other models into a ''common'' platform while centralizing decisions on suppliers, new model development, and capacity expansion. In May of 1997, Bennett responded by writing to John Smale, chairman of GM's board of directors, appealing for Saturn to either remain independent within GM or to be sold to outsiders or employees through an employee stock ownership plan.

As noted briefly earlier, the debate over the future of Saturn and its relationship with the rest of GM came to a head again in 1998. For several years the local union had been arguing the need for a decision on what product(s) would be sourced in Spring Hill to keep the operation viable, yet no decision was forthcoming (with the exception of the decision to source the next Saturn model in the Wilmington plant). As sales of the original Saturn model declined in 1997 and 1998, tensions mounted both within the workforce and between local union leaders and Saturn and GM management. In the summer of 1998, in the wake of a strike of all other UAW locals against GM over outsourcing issues, the Saturn local members authorized their leaders to call a strike if these issues could not be resolved. After intensive negotiations and considerable multilateral bargaining among local union leaders, UAW national union leaders, local Saturn managers, and GM executives, an agreement was reached to modify the risk-reward formula to reflect the lower volume levels, and a commitment was made to source a new generation sport utility vehicle (SUV) in Spring Hill. Moreover, despite the fact that GM's overall publicly announced strategy was to outsource more component parts, it agreed to continue involving local union leaders in sourcing decisions for the new SUV. The letter of understanding outlining the criteria to be used in making sourcing decisions called for consideration to be given to ''costs, quality, Saturn's brand image, and job security,'' factors that signaled the intent to continue considering the multiple goals Saturn was founded to achieve.

The dynamics of Saturn's first decade of experience outlined here illustrate a stark reality: The Saturn partnership is the most controversial experiment in labor-management relations and organizational governance found in America today. It has ardent supporters and vigorous critics. It challenges deeply ingrained ideological principles, traditions, and legal doctrines. It therefore serves as a symbol for a ''different kind of company'' with all the advantages and risks attendant to such a position. The lesson we draw from this highly charged history is that stakeholder firms that embody features similar to Saturn's, that increase employee influence and involve collective representation, will evoke similar intense debates. For this type of stakeholder organizational form to be widely adopted and survive will require changes in labor law as well as considerable shifts in power and ideology in society, inside corporations, and, where they are present, inside national unions.

Discussion: Implications for a General Theory

While we recognize that Saturn has a number of unique features and that we have only developed propositions for one set of stakeholders, we believe the theory generated here can be adapted and tested with respect to other interests that aspire to be influential stakeholders in American corporations. Figure 3 summarizes the general case analog for each of the propositions developed with respect to employees as stakeholders. The propositions are organized around the three questions that we suggest a general theory needs to address—when will a stakeholder firm emerge, what are the critical factors influencing performance, and what determines sustainability.

Emerging Factors. Just as employee knowledge assets must be essential to the success of the firm, other would-be stakeholders will also need to bring critical assets to the firm. For suppliers this may be critical technologies and/or R&D capabilities. For communities it may be tax abatements, infrastructure investments, locational advantages, or education and training programs. Whatever the resources are, they will need to be powerful and critical enough to compete with the other critical resources (financial, human, technical, etc.) needed for the firm to be successful.

The analog to the need for employees to bear residual risks should the enterprise fail or their employment end is that other stakeholders will need to put some or all of the assets they bring at risk should the enterprise fail. For a supplier, the consequences of a failure of an end product in which its technologies are embedded or for which it has committed significant amounts of investment to support are clear. So too are the investments a community loses if a firm closes a facility and leaves before a fair return on the community's subsidies or investments is realized.

The interaction of leadership and power that led GM to partner with the UAW in creating Saturn illustrates a critical proposition that we believe has not been addressed adequately in organizational theory. Researchers need to look beyond the personal values and leadership styles of top executives, and examine the relative power of the different external forces that limit their discretion. The power to impose costs and/or to confer benefits on an organization is a necessary condition for any potential stakeholder interest to gain influence. But power alone is not enough. Power can be dealt with in an adversarial fashion through arm's-length contractual negotiations. A base of trust and a shared vision of the potential benefits of partnership are also necessary for a stakeholder organizational form to be chosen. The original champions of Saturn at GM and the UAW had developed trust through a series of innovative collective bargaining agreements, workplace participation experiments, and personal interactions. The shared trust and a common vision that partnership could work for both of their respective organizational purposes, and the recognition that neither could escape from their interdependent relationship, led them to take the risks needed to establish Saturn as a stakeholder organization. The general analog, therefore, is the need for a similar shared vision and leadership among parties in an interdependent setting from which neither party can escape without high costs.

Operation/Governance Attributes. The general analog to the need for employees to translate their knowledge into sustained efforts that in fact add value is that stakeholders will need to both follow through and put their assets to work to achieve high levels of performance, and renew or continuously improve the assets they contribute. Suppliers will need to continue to lower costs and/or improve their technologies. Once the organization provides returns to the local economy sufficient to cover a community's initial investments, communities will need to continue to upgrade their infrastructures and supply trained workers, etc.

The complementary features of the employment and governance systems needed to support employee contributions to organizational performance have been well researched and documented in recent years. This, however, is less well-charted territory for other stakeholders. The relevant question is what other organizational changes and process adaptations are needed to, for example, support an ongoing alliance with suppliers or community stakeholders? In the past, this question was largely answered by creating specialized boundary units to reduce uncertainties and negotiate with these external groups (Thompson 1967). This is not likely to be an adequate strategy for building and sustaining stakeholder partnerships with these groups because they will expect and require more fundamental organizational changes than boundary specialists can achieve. The growing literature on supply chain management is a fruitful source of information on what may be required to serve this purpose (Fine 1998).

By bringing together multiple interests that share power, stakeholder firms have a high potential for conflicts that need to be managed effectively. This requires aggregating interests, surfacing differences, and resolving conflicts in ways that produce high-quality outcomes. Potential stakeholders may need to create the analog of labor unions. Managers and stakeholder leaders will need to have skills in managing mixed motive interactions. Thus, while the role of the union may appear to be one of the idiosyncratic features of Saturn, in fact, the functions served by the union may have implications that are generalizable well beyond this particular type of stakeholder organization.

Figure 3 Propositions for a General Stakeholder Theory

When will stakeholder firms emerge?

Stakeholders must hold assets that are critical to the firm's success.

Stakeholders must put their assets at risk in the firm.

Stakeholders must have sufficient power to compel influence and sufficient trust must be present among shareholder and stakeholder leaders to believe a partnership can work for their respective organizations.

What organizational/governance features contribute to stakeholder firm success?

Stakeholders need to add value to ongoing operations.

Organizational processes and governance systems need to be adapted to complement the contributions of the stakeholders.

Stakeholder interests must be aggregated and conflict managed effectively.

What is needed for stakeholder firms to be sustainable?

Stakeholders must have a voice in leadership succession and the incentives under which leaders are employed must motivate them to be responsive to the interests of all the stakeholders.

Resistance to the legitimacy of stakeholders other than shareholders participating in corporate governance processes will need to be overcome.

Sustaining Stakeholder Models. The need for employees to have a voice in leadership succession, either of the management leader or at a minimum of their own leader, and for the leaders to be held accountable to the interests of the different stakeholders implies a significant shift in the governance rules, structures, and personnel decisions of corporations. As noted earlier, some state charter laws have been amended to allow firms to take community interests into account in strategic decisions. Sharing leadership selection decisions and/or decisions about what incentives to reward in leaders' contracts would be a significant departure from traditional practices, yet sustaining this organizational form may require this step be taken.

Finally, employees and their unions encounter a long history of legal and ideological opposition to gaining the legitimacy needed to be accepted as a stakeholder. While perhaps the ideologies surrounding trade unions in the United States intensify this problem for employees, it is likely that other stakeholders will encounter similar resistance in their quest for legitimacy. Ultimately, a change in the political environment from one that reinforces the ideology of unregulated capital markets and enterprises to one that legitimates other stakeholders is likely to be necessary to sustain these alternative organizational forms.

Researchers face a tall order in rethinking basic concepts and practices, and engaging the debates that lie ahead about the role of the corporation in society. Yet if the social critiques of the American corporation outlined at the start of this paper are valid, this tall order needs to be addressed if organizational researchers are to have anything substantive to say if and when the policy debates are joined.

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Endnotes

[1]Another example of a firm that may lie somewhere between the two ends of the shareholder-stakeholder continuum, at least with respect toward employees, is what is sometimes referred to as a "high performance" firm (Lawler 1986). Indeed, the two share many design features. However, we see the key difference as follows. A high performance firm follows a high productivity/high skills and wages *means or strategy* to achieve the traditional goal of maximizing shareholder wealth. The hope is that by doing so it will have the additional benefit of producing positive results or mutual gains for employees (Kochan and Osterman 1994). But a high performance firm does not alter the basic objectives of the traditional firm. A stakeholder firm, however, goes further by explicitly building multiple goals into its *objective function.* Moreover, few high performance organizations include employees in governance roles. Those that do would be positioned closer to the stakeholder end of the continuum than those that don't.

[2]As we will note later, Bennett also experienced difficulty in maintaining this balance and was defeated by a challenger in the 1999 local union elections. The challenger ran on a platform supportive of continuing the labor-management partnership, but in a way more responsive to specific rank-and-file concerns.

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