MONEY TALKS

Getting a Seat at the Bargaining Table

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TABLE OF CONTENTS

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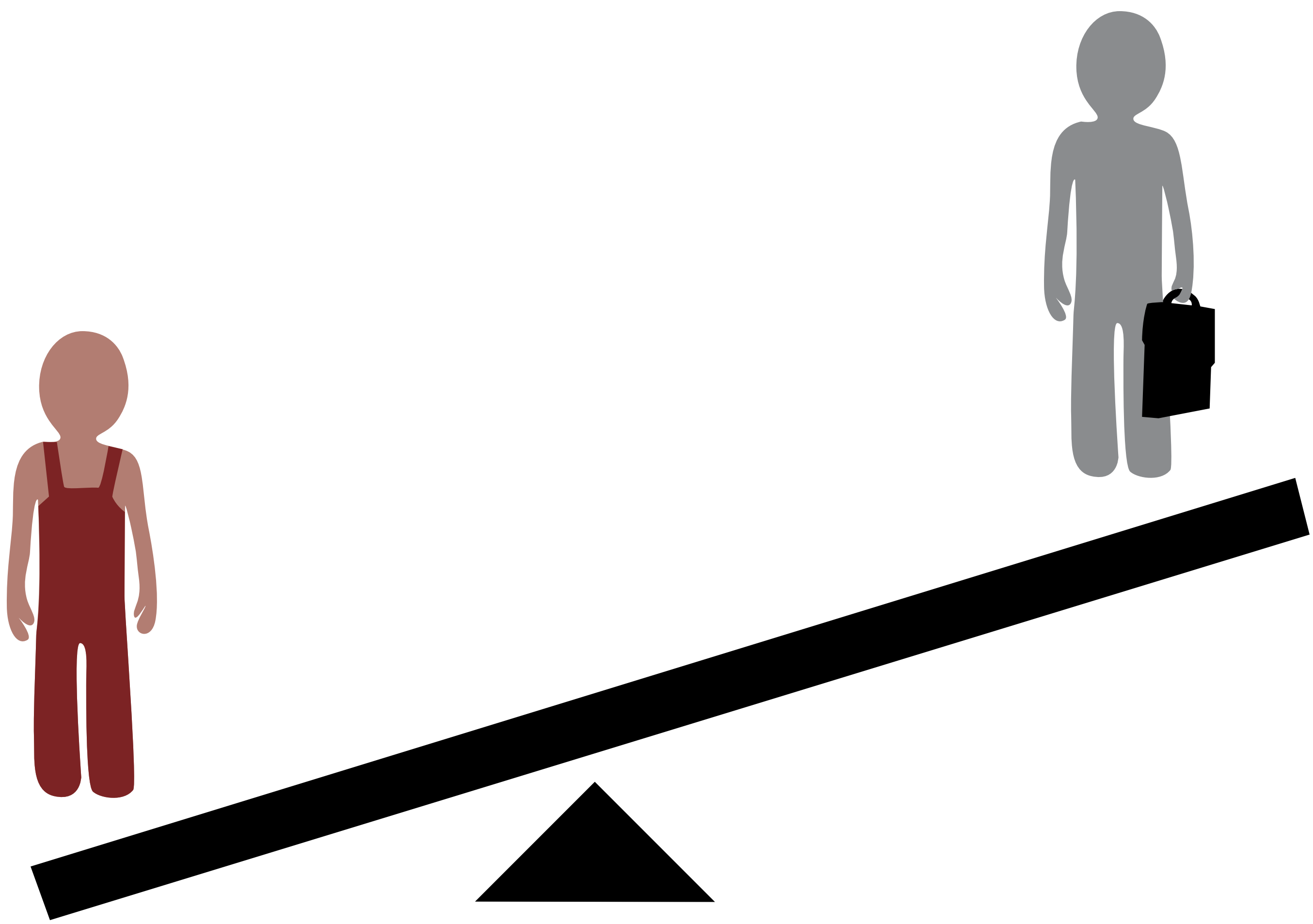
...especially in a global economy



EXECUTIVE SUMMARY

Most Minnesota global conglomerates have weathered Wall Street's turbulent times because they remained committed to Main Street stakeholders—local merchants and suppliers, teachers, firefighters, and company workers. Realizing a strong, well-educated, healthy workforce; well-built and maintained roads and bridges; and safe and prosperous communities would pay dividends, Minnesota companies invested in these resources in a number of ways. Corporate executives served on philanthropic and community boards, donated money, and accepted fair fiscal policies to invest in a wide range of community services.

These investments—building from rich natural resources—combined to help propel a remote Midwestern state into a national leader in food production, health care, education, and retailing.

This paper looks at the power we possess as stakeholders—individually and in groups—to influence change.

These accomplishments, however, have not come easy. Balancing stakeholder interests with the need to maximize shareholder returns has become a complex task for companies, especially in a global economy.

With public financing instruments, pensions, 401Ks and other retirement investments tied up in big business stock, most stakeholders are now also shareholders.

Advancements in technology, opportunities in emerging markets, changing demographics all present opportunities for companies to strengthen returns for shareholders but might conflict with stakeholder interests. This is so when companies consider layoffs, closing factories, and minimizing revenue returned to local governments.

As stakeholders, many of these changes are imposed on us. We do, however, have the power and tools to shape the socioeconomic environment that emerges.

This paper looks at the power we possess as stakeholders—individually and in groups—to influence change. It also looks at the tools being assembled by business professors, economists, social scientists and leaders of nonprofit, social welfare organizations here and abroad to guide us toward enlightened decisions in shaping our future.

This analysis also explores the following conflicts:

- ✓ Within a business—including, public stock corporations, closely held or private companies and cooperatives—conflicts arise over the use of corporate funds to support certain political ends that may serve the best short-term interests of managers but not a firm's long-term interests.

- ✓ Externally, companies can purse investment policies or promote political policies that harm or divide interests of their stakeholders (Hill and Jones). In most academic studies, these stakeholders are identified as employees, customers, suppliers (vendors), creditors, communities, the general public (encompassing a lot of interests) and the managers and stockholders themselves.

- ✓ Shareholder-stakeholder conflicts often manifest into wider social upheaval beyond the obvious stakeholders.

The paper pulls together research findings and deductive reasoning from more than 30 scholars around the world. The work of American and native Minnesotan Michael C. Jensen and the Dutch scholar and expert on European organizations Roel In't Veld was especially helpful.

Poverty hurts us all. Misguided public policies and shortsighted behavior by business groups make our problems worse, resulting in a shrinking middle class and the growing disparity between wealth and poverty. That, history shows, is not sustainable.

For most Americans and nearly all Minnesota-based corporations, business prospects are clearly tied to consumer purchasing power. Since the United States' Gross Domestic Product (GDP) is consumption oriented (70 percent) and depends heavily on household purchases, it is in all businesses' best interests to back policies that would put more money into the pockets of average citizens. Yet, we sometimes see companies backing policy making strategies that seek to undermine wages and equitable distribution of prosperity.

In addition, companies have used screens to disguise enlightened self interests that tend to undermine shareholders and stakeholders. As an initial "smell test," company managers and business groups should ask themselves why they don't want shareholders or stakeholders to know how their corporate money is being used. If such public disclosures would create problems with shareholders, stakeholders or both, it is then logical to conclude that the use of these corporate funds is also harmful to the business entity.

FINDINGS

- ✓ Conservative advocates have employed a multi-pronged attack on workers' rights and civil liberties to advance corporate interests, which will further concentrate wealth to a select few.
- ✓ This imbalance between stakeholders (workers, community members, customers, other merchants, etc.) and shareholders (company owners, bondholders, stockholders and others invested in the company) has played a major role in our nation's economic inequity.
- ✓ To solve some of our nation's economic woes, policymakers must find ways to better align long-term interests of stakeholders and shareholders.
- ✓ Economic and social thinkers have developed and are developing tools necessary to align stakeholder and shareholder interests, restoring ethical leadership among business and community executives.

RECOMMENDATIONS

- ✓ Minnesota needs to raise its minimum wage rate and explore "living wage" compensation to stimulate the economy and lift more Minnesota families out of poverty. For example the 1968 "Great Society" federal minimum wage was $1.60 per hour, which translates to $10.80 per hour in 2012 dollars. The current federal minimum wage is only $7.25 per hour. Minnesota law, however, allows some employers to pay $5.25 if the business does less than $500,000 in gross sales and does no interstate business, according to the U.S. Department of Labor.
- ✓ State policymakers should also empower stakeholders in rural communities in need of workers by investing in early childhood education and adult care programs. This will ease financial burdens on families with children or aging relatives. It will also encourage those who have left the workforce to take care of a child or relative to return.
- ✓ Shareholders/owners of businesses should identify their primary stakeholders and jointly assess self-interests for corporate social responsibility (CSR) actions. Similarly, stakeholders should assess where corporate behavior may be negating any benefits of existing CSR actions, such as campaign spending that leads to weakening the jobs market, adds to poverty and reduces household purchasing power.

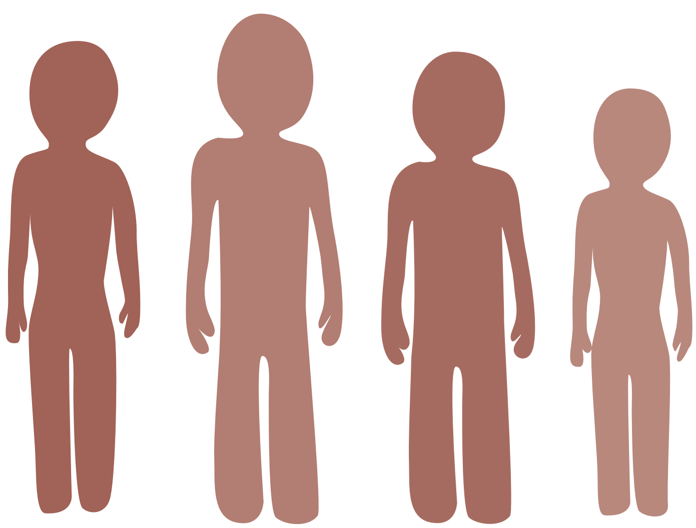
TERMS USED IN THIS REPORT

Shareholders – For our purposes, this term applies to anyone with an equity stake in a public stock company, a private or closely held company, and members of mutual and cooperative businesses who might influence business behavior.

Stakeholders – This term applies to everyone who is affected, positively or negatively, by a business enterprise. Usually it includes employees, customers, clients, vendors (suppliers), anyone whose business or services are impacted by a firm's employment, local and state governments that supply services or collect taxes from the firm, and the nonprofit, service sectors impacted by business behavior.

Agency theory problems - Inherent problems that arise over the use of capital and decision making within business companies and organizations. This report extends the theory to impacted stakeholders as well.

Corporate social responsibility – Actions taken by a business entity to reward stakeholders or improve the environment for the betterment of stakeholders.



INTRODUCTION

The economic downturn and subsequent Occupy Movement has raised America's awareness of income inequality. A January 2012 Pew Research Center survey found 73 percent of people who identified themselves as Democrats see "strong conflicts" between the rich and poor, 68 percent of self-described independents share that view, and 55 percent of Republicans, up from 38 percent in a 2009 poll, also agree.

Various measures demonstrate a widening gulf between top income earners and the rest of the workforce. Furthermore, the latest U.S. Census Bureau numbers show inflation-adjusted median family income has shrunk from $70,912 in 2000 to $69,625 in 2010.

Social frustration often leads to two major outcomes:

1. **Social change for the greater good**
2. **Racial and ethnic divisions that involve scapegoating**

The top 5 percent of American households are packing away the greater portion of America's aggregate wealth while middle- and lower-income families see their fortunes either sinking or merely treading water. There are a number of reasons why, including globalization, technological advancements, and demographic shifts. Three decades of business and banking deregulations also tipped scales in favor of powerful economic forces.

As has been the case since America's colonial times, social frustration often leads to two major outcomes: social change for the greater good or class, racial and ethnic divisions that involve scapegoating. Social scientists have long recognized large numbers of people have wanted classes to be beneath them. Today, however, such class warfare is often a strategic ploy financed by special interests that either seek to gain allies or divide lesser classes against each other, thus preserving their own power.

Corporations competing in global markets in recent decades turned to squeezing labor costs because they couldn't influence raw material, transportation, and other fixed costs, says Hy Berman, University of Minnesota emeritus professor of labor history.

Through business alliances, such as the U.S. and state Chambers of Commerce and the American Legislative Exchange Council (ALEC), corporations have coordinated campaigns to develop and implement anti-labor policies at state houses nationwide, including Minnesota.

Attempting to undermine workers' rights, corporate surrogates have sought to villainize public servants, including school teachers, to raise private sector workers' ire, thus dividing the U.S. labor force.

They usually camouflage such attacks behind high-sounding objectives, such as creating jobs, balancing budgets, or reforming education. However, outcomes usually result in larger student class sizes, fewer academic programs, and higher public sector unemployment that spills over to the whole job market. These policies also pass the cost of education downward to regressive property taxes and away from the more progressive state income taxes special interests seek to avoid.

Other public policy initiatives deal with social issues that do little to promote more equitable, harmonious, and safer communities. These serve to distract workers and progressive policy advocates. In Minnesota, it's produced the anti-marriage amendment, shoot first legislation, and voter-suppression bills. The theory behind such a strategy is to keep moderates and progressives fighting on a large number of policy issues at one time, preventing more concentrated efforts on a few key economic and quality of life priorities.

Alliance for a Better Minnesota compiled a list of ALEC-backed bills Governor Dayton vetoed that served to distract Minnesotans or take the state in reverse (see Appendix A).

Dale Carpenter, the Earl R. Larson Professor of Civil Rights and Civil Liberties Law at the University of Minnesota Law School, sees connections between same-sex marriage restrictions, voter suppressions, limiting labor's ability to organize and bargain collectively, and other public employees attacks as part of the organized anti-civil liberties crusade.

Even though the general public is starting to see these connections, corporate entities maintain anti-stakeholder pursuits that endear some shareholders. ALEC, for example, saw major defections, especially among food, beverage and consumer products companies, after the media connected a Florida teenager being shot with the state's ALEC-sponsored "Stand Your Ground" law (Froomkin). Such bad press attention, however, doesn't bring corporate funding of political extremism to an end; it most likely shifts it to other Super PACS that have kept a lower profile.

While most corporations are mainly interested in conservative economic policy, they realize the divide-and-conquer strategy includes aggressive social distractions.

Advancing such divisive issues, such as Minnesota's anti-marriage and voter ID amendments on the fall 2012 ballot, may create divisions in the corporate community, especially for those who realize broader social harmony helps attract better workforces.

Some might call this the "dollar versus democracy" challenge of our times. In most of the social sciences, this friction is defined as pitting property rights against civil or human rights. In business and economics schools, however, this friction is often summarized as putting shareholder (capital holding) rights against stakeholder (affected people) interests and their more limited rights.

Given how these differences play out in the current social and political economies of America and Minnesota, this paper uses the stakeholder-shareholder division to also include the ageless distinctions between property rights and civil rights. Minnesotans must merge both the humanitarian and economic philosophies in developing ways to level the playing field and restore economic opportunity for all.

PART ONE: THE MINNESOTA DIFFERENCE

For most of the past century, Minnesotans have taken pride in their locally grown companies, resulting in a broad network of citizens—rich and modest income earners— investing in homegrown businesses and holding onto their stock through good times and bad. Such investor loyalty and community connectedness represents the best in what truly is democratic capitalism.

It is commonplace to see current and former workers alongside long-time investors packed in large ballrooms for annual investor meetings at Minnesota's major corporations. These meetings also attract community groups, pension fund officials, union representatives, and even religious leaders who come to question companies about corporate social responsibility programs.

Elsewhere, most Fortune 500 companies can hold annual meetings in modest-size hotel ballrooms with only former executives, securities analysts, and managers of investment funds attending.

Minnesota is pretty unique, one food security analyst pointed out a number of years ago. It is one of the few places where people really care about their companies, and not just short-term returns on investment.

Investor loyalty and community connectedness represents the best in what truly is democratic capitalism.

The analyst then started paging through footnotes in a Supervalu Inc. annual report that contained Securities and Exchange Commission filings. Those connected people who cared about Supervalu would account for less than 20 percent of the company's voting stock, he concluded. "So why do they come?" he asked a local writer.

Two decades later, two answers stick in mind.

First, Intense scrutiny of locally based companies strengthens community ties to our major industries. The Minneapolis Star Tribune, St. Paul Pioneer Press and Twin Cities business periodicals focus great attention to how well Minnesota-based companies perform.
This thorough, ongoing coverage is for both the local shareholders and for community members—stakeholders—who want these companies to thrive because of the jobs, taxes and economic prosperity they create. Second, companies can maintain an environment in which shareholder and stakeholder values are more closely aligned, encouraging stakeholders to become shareholders and vise versa. Minnesota business successes and failures show this is possible even when stakeholder investors account for only a small percentage of a firm's voting stock.

Shareholders

Assumptions about capitalism over five centuries would lead the novice investor and general reader to believe shareholders are a single class of people who jointly own the stock. Thus, the reasoning goes, their interests would be all alike in a publicly-traded or closely-held company. This is the great promise, or design, of democracy in capitalism.

Such a simplistic view also suggests that the "agents"—managers—that shareholders' boards employ are thus hired hands looking out for shareholders' common interests. That could be the case where the sole purpose of the firm and its managers is to maximize value for the shareholders. The business relationship between shareholders and company managers isn't that neat.

Frictions arise when shareholder groups and outside investors question board and management's future growth investment decisions that negatively impact short-term profits.

To head off such problems, some businesses and their advisors encourage employee stock option plans for workers and managers as rewards for long-term performance.

Companies also issue different classes of stock that carry preferential treatment for some suppliers of capital, and voting and non-voting rights for other holders of different classes of stock. As Joel Anderson with Equities.com notes, "it's all about control."

In some cases, these strategies have helped bring all shareholders and bondholders—the "principals"—under a collaborative umbrella with their agents. Often, however, it hasn't achieved its lofty goals.

In the United States, stock ownership plans evolved without giving employees a seat at the board table

In the United States, noted the University of Chicago's Gary Herrigel, stock ownership plans evolved without giving employees a seat at the board table either through election or collective bargaining. In other words, employees and others with interests in the company's welfare can loosely be connected to controlling groups of shareholders, but this connectedness often resembles old world family relationships in which children are told to "be seen and not heard."

Agency Theory Problems

Let's further explore the complex shareholder relationship among bondholders, creditors, and stockholders with company management.

Business scholars and economists began serious study of enterprises' organizational forms following World War II with the emergence of American multinational corporations. Almost all firms then studied were publicly traded corporations. Some family owned and closely held companies became multinational operations (Cargill Inc. is a prime example) that kept most issues of governance and strategies also closely held. Member-owned enterprises—cooperatives, mutual insurance and finance firms and credit unions—until modern times were almost always domestic operations closely linked to engaged, non-passive owners.

The distinctions among these organizational forms of enterprises have steadily dissolved over time. Founding families relinquished ownership control of stock to investment fund managers, hedge funds and other outside, passive investment interests. Privately held companies constantly bring in and share ownership with outside management talents as they grow, prosper and expand globally. Even membership-owned enterprises see frictions between company managers and their investor-owners as they grow and prosper, thus weakening bonds (described as 'solidarity') between shareholder-members and the company (Hakelius). The modern cooperative also opens itself to shareholder interests the minute it goes to bond markets for outside capital.

These conflicts form the basis of business "agency theory" developed by Minneapolis native Michael Jensen (a Harvard Business School professor who graduated from Macalester College) and the late William Meckling (University of Rochester). Their 1976 work began to identify problems that separate corporate managers, or agents, from the providers of capital, be they owner-shareholders or bondholders.

Their work launched 35 years of continuing study by academics and ethicists who explored the pitfalls of agency theory problems, how business management can alleviate some of these problems, and how these problems are found in different business ownership structures and governance.

According to most academics, primary agency relationships pit stockholders against managers, and debt holders (bondholders) against shareholders, usually over the use of capital. These conflicts influence "agency costs," governance issues, and business ethics.

Recognizing "Agency Theory" Problems

Building on the work of Jensen-Meckling, applied economists and business professors identify the following as reoccurring problems within membership-owned enterprises.

Free-Rider Problem – Similar to the term used across the social sciences, this occurs when individuals or groups seize access to a firm's assets and equities with minimal and sometimes no investment of their own.

Horizon Problem – How long-term, or short-term, is a current business strategy and the intended use of common capital?

Portfolio Problem – How closely aligned are a firm's products or services with the narrow interests of shareholders or stakeholders? This becomes important when common capital is used for diversification, mergers and acquisitions.

Control Problem – Often a problem with the growth and size of a business; management gains a stronger hand and shareholders/stakeholders lose control when a firm's operations become more complex.

Decision-making Problem – This is complex and gets defined differently by scholars. It involves determining who among shareholders might have influence on managers, how boards perceive their roles, and difficulties that managers may have in ascertaining aspirations of the principals.

Stakeholders

While divisions of interests among shareholders are complex, the entire concept of stakeholder interests can be far more baffling. Some scholars see as few as five groups of stakeholders with interests in business enterprises; other split and sub-group more than 100 different interest sectors.

For purposes of this paper, a simplistic definition from the Financial Times suffices:

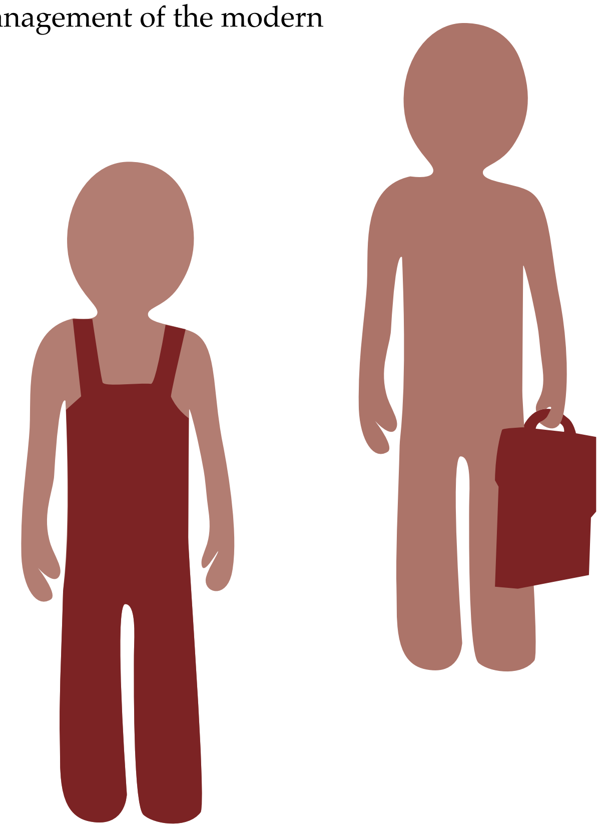
> "Stakeholder theory suggests that the purpose of a business is to create as much value as possible for stakeholders. In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employers, communities and shareholders aligned and going in the same direction.
>
> "Innovation to keep these interests aligned is more important than the easy strategy of trading off the interests of stakeholders against each other. Hence, by managing for stakeholders, executives will also create as much value as possible for shareholders and other financiers." Financial Times.

Around the time business scholars were beginning to generally accept Jensen and Meckling's agency theory, researchers began examining stakeholder interests. Hill and Jones (1992) were among the first to describe this parallel field of study as "Stakeholder-Agency Theory," now shortened to stakeholder theory.

Stakeholder theory has emerged as a separate but parallel set of problems with agency theory gnawing at governance, structure and management of the modern business enterprise.

For most of us, identifying who are shareholders and stakeholders is the easy part of looking at business entities and their legal structures. Identifying what rights they might have becomes far more challenging and requires an understanding of laws and cultures within different countries.

While business professors and economists can measure and define laws, culture has always been more complex and requires other social scientists and philosophers to properly explain. This might help to contextualize differences in corporate governance in an American enterprise versus a Japanese or German enterprise.



Here are two examples of stakeholder complexities:

1) Starting from a rigid Anglo-American view, Norman Barry, University of Buckingham social and political theory professor, dismisses stakeholder legitimacy in the control or management of a firm. In "The Stakeholder Fallacy" (2000), he claimed efforts to bring stakeholders and shareholders into a heterogeneous mix are an end run attempt at socialism. Along that vein, Barry also slammed philosophers who, he said, have discovered "business ethics" in their search for employment.

Jensen offers a more a pragmatic criticism of stakeholder theory, noting that advocates of the theory give business managers little direction on how to make "trade-offs" among competing interests when making company decisions (Jensen, Winter 2010).

2) However, other business thinkers show stakeholder theory does provide solid guidance for executives. Allen, Carletti and Marquez (2009) observe that Germany explicitly adapted accepted social norms regarding stakeholder-orientation into business law. Japan's culture, or social norms, achieves the same effect without legal requirements.

Similarly, Allen et al found different circumstances where shareholder-oriented and stakeholder-oriented firms became more valuable, or outperformed the other; not all internal or external factors were alike.

Germany and Japan are usually singled out as the prime examples of stakeholder theory. Other European nations, such as Denmark and the Netherlands, have variations from those two industrial giants (Rose and Mejer, In't Veld, Borghouts-van de Pas).

These examples at least provide a model for U.S. policymakers to adapt, when it comes to merging the common good and law to enhance stakeholder interests.

Corporate Social Responsibility

Several papers cited in this report point to stakeholders coming to the defense of local companies in hostile takeover actions as a uniting force that gave rise to corporate social responsibility practices.

The public and Minnesota Legislature, for instance, came to the attempted rescue of what is now Minneapolis-based Target Corp. in 1987 when it became the "target" of a hostile corporate raiding group.

Communities can be harmed when corporate raiders buy and liquidate local firms.

Such experiences create quasi-corporate acceptance of stakeholder theory even in the Anglo-American business climate. Clearly, communities can be harmed when corporate raiders buy and liquidate local firms, closing plants and headquarters operations as well. Local vendors who supply commodities, products and services are hurt. The local tax base is eroded.

The rise of multinational companies from all corners of the Earth and growth of the global economy are bringing about greater awareness of the CSR concept, insist Fontaine, Haarman and Schmid. In their paper, the French researchers found more than 75 definitions of stakeholders. Each group might make requests on a company, but they do not have the same influence. Therefore, they concluded, CSR practices must be reduced to categories of social and environmental issues to be manageable.

That probably applies to American companies as well. But with substandard levels of public policies to meet human needs by First World standards, American corporate programs are called upon to do much more. Minnesota experience with corporate social responsibility will be looked at more closely in the third section of this paper.

At a basic level, corporations can make sure community services are well funded. Investing in some areas returns direct value to corporations, such as investments in early childhood programs and adult care programs. This frees up available workers taken out of the labor force to care for children or aging relatives. In the case of early childhood, it helps reduce achievement gaps that tend to cost school districts more money in the future, with lower success rates.

PART TWO: PROPERTY RIGHTS AND CIVIL RIGHTS

A problem with social criticism is that while it starts out helpful, and informative, it can become misused and serve as a manual for exploitive interests. The latter was true of Richard Hofstadter's classic Oxford speech turned into an article for Harper's Magazine, "The Paranoid Style in American Politics." In it, he traced back fear of others and of unknown groups that provided grist for political movements and actions in both the United States and Europe.

It helped thoughtful people and students understand the fear factors playing out in the 1964 Johnson-Goldwater presidential campaign—the edition of Harper's arrived on newsstands about two weeks before that election. Unfortunately, it served as a manual for amoral political strategists and manipulators in every election since. As an example, it lives on with the well-financed scares perpetrated over "Obamacare" and "Romneycare" by regressive forces in the present political climate.

When "cares" can't be turned into scares, other well-financed ploys call on the gullible to look for conspiracies. Accusations that President Obama was actually born at Hofsos, Iceland, or some other out-of-the-way place, or that Governor Romney was actually born in Mexico are two examples of the latter.

We know through painful experience that freedom is never voluntarily given by the oppressor; it must be demanded by the oppressed.

This was predictable back when every American social sciences student was reading the Hofstadter piece. Political scientists Ronald Riggs, Bob Becker (St. Cloud State University) and Edward Henry (St. John's University) seized the moment to elaborate on Hofstadter by showing a joint meeting of students a straight-line bar graphic depicting the political spectrum. A segment in the middle, ranging from 15 percent to a third of all potential voters most years, was genuinely independent and could be swayed by arguments to go either left or right in an election. Building out from this middle ground were moderates to extremists found within political ranks at any given time.

The professors portrayed the bar as essentially separating property rights interests on the right from civil rights interests on the left. Political balance thus swayed on which set of rights—civil or property—a majority of voters feared losing the most.

When the St. Cloud area political scientists were diagramming Hofstadter's paranoia, America was engaged in serious civil rights battles. Just the year before, Martin Luther King Jr. wrote in his Letter from Birmingham Jail: "We know through painful experience that freedom is never voluntarily given by the oppressor; it must be demanded by the oppressed." Sometimes, we also know from King's experience, people and powerful forces really are out to get you.

Civil rights in Minnesota

Like most states, Minnesota has been on both sides of the civil rights movement, embroiled in national and state controversies. Based on historical accounts, the Dred Scott Decision (1857) horrified many Minnesotans. The U.S. Supreme Court sided with property rights over human rights by denying Scott freedom when his owner returned from Minnesota to Missouri, a slave holding state.

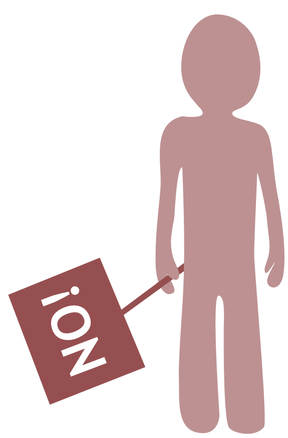
This decision contributed to abolition sentiments gaining strength in the Northern states, and ultimately to the U.S. Constitution's civil rights amendments (13th, 14th and 15th), which probably wouldn't have been possible without secession and the Civil War.

Nearly three-quarters of a century later, then-mayor Hubert H. Humphrey's 1948 national convention speech, in which he lambasted the country for not acting quickly enough to implement civil rights, also serves as a milestone for Minnesota's progressive stance on civil rights.

At other times, however, Minnesotans haven't been as high-minded. Historian Rhoda Gilman drives that point home in a new book, Stand Up: The Story of Minnesota's Protest Tradition, in which she recalls low periods in Minnesota history and how people rose up in opposition with different degrees of success (Gilman).

Gilman provides readers an understanding of civil rights and ideological clashes that shaped the state. She also shows how Minnesotans have been willing to ignore constitutional rights during the state's darkest hours; i.e. violent anti-strike clashes, the Minnesota Public Safety Commission vigilantes, the lynching of a Finnish labor organizer in Northern Minnesota whose death was ruled a suicide despite his being found tarred, feathered and hanging from a tree (Gilman, p. 70).

Heavy-handed property rights and civil rights struggles a century ago made allies out of groups that historically haven't shared a wealth of common interests, either in North America or in Europe. This is apparent in Metropolitan State University's Tom O'Connell's dissertation in political sociology, "Toward the Cooperative Commonwealth: An Introductory History of the Farmer-Labor Movement in Minnesota (1917-1948)" (O'Connell).



We've recently seen a blurring of the property and civil rights lines that have trampled the civil and property rights of most to advance the civil and property rights of a few

When it comes to the national stage, we've recently seen a blurring of the property and civil rights lines that have trampled the civil and property rights of most to advance the civil and property rights of a few (Rachleff). The Supreme Court's 2010 Citizens United decision basically said that companies should have the civil right to free speech. It has accelerated the already present anti-worker assault at the legislative and electoral level.

The Wesleyan Media Project, which monitors campaign ads, found by late April special interest group ad activity was up 1,100 percent from the same period in 2008.

INCREASES IN POLITICAL SPENDING 2008-2012		
	2012	**2008**
Super PAC purchases of total ads:	60%	3%
Candidate-sponsored ads:	35.8%	96.6%
Negative ads naming a candidate:	70%	9%
Negative candidate-sponsored ads:	53%	9%
Source: Wesleyan Media Project, Wesleyan University, Middleton, Conn. May 2, 2012.		

This decision opened the way for corporate interests to divide Americans. One of the enduring protest signs at Occupy Movement gatherings has commented: "I'll believe corporations are people when Texas starts executing them." Such protests have encouraged research on how property rights interests are raising and spending "free speech" money.

What should be evident from both past and current events is that property rights and civil rights arguments correspond with blurring lines of distinction between shareholder and stakeholder interests.

Several researchers cited in this paper suggest some harmonizing of business behavior, governance and corporate social responsibility is inevitable. This may come as even more business entities expand into global markets and must pay attention to stakeholders and trading partners' interests and requirements in other countries.

Instead of undermining workers' rights and salaries, it's in corporations' best interests to increase wages, especially at the lowest salary levels.

The U.S. minimum wage has lost its inflation-adjusted purchasing power by more than $3 per hour since its 1960s Great Society peak, from $10.80 to $7.25. By restoring the 1960s minimum wage as a first step and working to implement stronger living wage standards, corporations will provide workers more purchasing power, increasing demand for goods and services. This will also ease pressures on social service programs hit hard by the recession and slow recovery.

It would be a responsive action to Occupy Movement chants for greater economic equity, and a sign that corporations are working in good faith toward a fairer economy.

PART THREE: REDUCING CONFLICTS, RESTORING THE "MINNESOTA DREAM"

Those interested in quick profits and strong individual property rights have civil rights advocates and stakeholders under new threats and challenges. This is most evident with congressional and state legislative action, where union-busting measures seek to impede labor market functions and collective bargaining. It also comes through legislation to limit immigration rights, GLBT rights, women's rights, and universal healthcare access.

Now comes another election year where property rights interests are rallying to deregulate commerce and industry in the promise of economic growth. However, few try to make an honest academic connection to how deregulation might protect shareholders or stakeholders from repeated past abuses. There is no acknowledgement of risks that deregulation might bring the rebirth of an Enron or other imploded companies, the Ponzi schemes, NINJA (no income, no jobs or assets) mortgage lending, or business practices that nearly turned the Great Recession (2008-2009) into Great Depression II (Taibbi, p. 83). This is the short memory component in America's body politic, a weakness special interests would exploit.

Signals from abroad are just as confounding. Germany remains a strong economy within the European Union, while the United Kingdom's model—from where we learned and adopted much of our business organizational and property rights theories—is in recession.

On the whole, German industries continue to successfully produce and export, but German people live quite frugally. Domestic demand for goods and services trails the rest of Europe, restraining growth for its economic partners, The Economist points out ("Germany's economy: Modell Deutschland über alles," April 14, 2012).

Germany also benefitted greatly from massive spending and public works investment to bring the former East Germany territories up to par with the pre-reunification West Germany. This, it should be noted, is something Bush administration Treasury Secretary Henry Paulsen and Obama administration officials hope results from American economic rescue efforts, financial bailouts and stimulus programs down the road.

Germany's problem is then more cultural than public policy related. The U.S. on the other hand has undermined national stimulus efforts with state level cutbacks in employment, education, infrastructure and public services.

Corporate Social Responsibility and "Minnesota Nice"

Minnesota 2020 has twice before looked at ways to benefit from the state's diverse cultures to build a more progressive, prosperous economy and quality of life for all citizens. One study looked back at Northern European immigrants who influenced the development of Minnesota's economy from early settlement and statehood to modern times. The other study looked forward, at what our new immigrants and their entrepreneurial spirit offer for future growth and development.

In the time period somewhere between these two areas of study, an unofficial culture called "Minnesota Nice" evolved. If there really was such a thing beyond basic Midwestern cordiality, it probably covered the time frame from the 1940s to about 2000 when Minnesota again started turning its back on minorities, public education, public services, tax fairness and other social and economic issues that made Minnesota grow, prosper and claim national leadership on socio-economic measures.

Two writers, one local and one visiting from New York (Selix, Nocera), have tried to explain Minnesota's recent history with corporate social responsibility (CSR) and philanthropy. While many Minnesotans would welcome advancements in these areas, they would also bring scorn from "single-bottom-line" advocates, managers of hedge funds and other outside investment groups that simply want Minnesota enterprises to maximize share values and profits.

Some Minnesota-based corporations have gone a long way in establishing a national model for corporate social responsibility. Their help, along with public investments in education, health care, and infrastructure, has made Minnesota a desirable place to live for more than 60 years.

Minnesota has approximately 5,200 nonprofit organizations. While not all receive direct corporate-based philanthropic funding, the state's corporate leaders and families have a long charitable reach. The following table from the Minnesota Council of Nonprofits' 2010 Minnesota Nonprofit Economy Report presents a partial picture of this philanthropy.

Some Minnesota-based corporations have gone a long way in establishing a national model for corporate social responsibility.

The council tracked financial data on 2,030 nonprofits in the seven-county Twin Cities metro area that filed IRS Form 990 information. The chart doesn't contain data on private foundations and small nonprofits that have different IRS reporting requirements.

PHILANTHROPIC BENEFITS TO MINNESOTA'S NONPROFIT COMMUNITY			
	Small: Assets Under $1 million	**Medium: Assets Between $1 M - $10 M**	**Large: Assets More than $10 M**
Total Assets	$424 Million	$2.8 billion	$33.0 billion
Revenues:			
Program Services	43 %	53 %	90 %
Charitable Contributions	30 %	25 %	7 %
Government Grants	22 %	19 %	2 %
Investments and Sales	3 %	2 %	< 1 %
Other Revenue	1 %	< 1 %	2 %
Total Revenues	$872 million	$2.3 billion	$20.5 billion
Expenditures			
Program Services	84 %	86 %	88 %
Management & General	13 %	11 %	11 %
Fundraising	3 %	2 %	1 %
Total Expenditures	$861 million	$2.3 billion	$20.6 billion
Source: Minnesota Council on Nonprofits, 2010 Minnesota Nonprofit Economy Report - http://www.minnesotanonprofits.org/nonprofit-resources/about-the-nonprofit-sector/research-reports/2010NPER.pdf.			

A similar organization, the Minnesota Council on Foundations (MCF), serves as a regional association for grant makers. According to its web site, foundations make more than $900 million in grants available to nonprofit organizations each year, providing about 100,000 grants annually.

This tradition of building prosperous communities by supporting charitable causes traces back to Minnesota's early days as a milling state. The Pillsbury family staked the University of Minnesota to keep it open during the Civil War when state budget funds went into the war effort. The Pillsbury family was never repaid. A later Pillsbury generation remarked the graduates who worked for the company and made Minnesota a global leader in the food industries paid them back "many times over."

In more recent times, it hasn't been just money. Minnesota food manufacturers and wholesalers had contributed staff expertise—human capital—to draw on their knowledge and make food program groups like Second Harvest Heartland a model for the nation.

This brings expertise—talent—that most nonprofit organizations struggle to access.

CONCLUSION AND RECOMMENDATIONS

Minnesotans cannot rewrite the "rules of the game" governing how businesses and individuals behave in either a national or a global economy. However, past experience demonstrates internal corporate behavior can be modified to accommodate a culture that values stakeholder interests, embraces environmental stewardship, and sees the public sector as a partner while guaranteeing shareholders' value.

Minnesota companies have proven corporate social responsibility pays off, along with European, Japanese, and Canadian firms. Recognizing its importance, at least six guidance statements have been issued by United Nations agencies and First World research groups, such as the Organization for Economic Cooperation and Development (OECD).

Let's look at ways we might build on what has worked.

Public policy options that would move Minnesota forward

- ✓ As a basic, remedial action, our various community, social-welfare, children's and poverty organizations should support proposed legislation aimed at the Minnesota Legislature' 2013 session. It would raise the state minimum wage to $9.50 an hour from $7.25 an hour (Michaelson). Retailers and basic service providers should see enlightened self-interest reasons to support this as well.

- ✓ The same forward looking legislative proposal, now called the Family Economic Security Act (ibid.), would provide adequate funding for the 7,000 Minnesota families now eligible but on a waiting list for childcare assistance, and expand eligibility for low-income families.

- ✓ To cope with "agency theory" problems that arise in the public sector / stakeholder sphere, Minnesotans should seek more complete definitions and remedies for the following:

  - » **Clawback** rights for Minnesota taxpayers, state agencies and local communities. This would allow greater recovery of subsidies when businesses flee the state or a community to access exploitive "free rider" benefits offered in other states and nations.

  - » **Horizon** problems need recognition and explanation. For instance, schools aren't just for students who may not be your children or grandchildren; broader community benefits need explanation. Investments in roads, bridges and other infrastructure aren't just for commuters and truckers; explanations of improvements to public safety and economic multiplier effects are crucial.

  - » **Transparency** in lawmaking will be critical in a post Citizens United legislative climate.

Corporate Social Responsibility/stakeholder interests

To say that U.S. companies should wholly adopt principals found in other nations is naïve. However, there are many business guidelines worth adapting to reduce shareholder – stakeholder conflicts.

- ✓ Companies and business organizations could gain management guidance in determining likely social and environment impacts from using the In't Veld matrix (see in below graphic). Dutch Professor Dr. Roel In't Veld designed the matrix to help businesses recognize diverse shareholder interests, but it would also work for assessing stakeholder interests. Minnesota small businesses tend to be in the first category of organizations and have great opportunities to recognize impacts even when they don't have great resources for corporate social responsibility programs. Most large Minnesota corporations are in the fourth category that is market-oriented with capacity goals, meaning they will have greater impacts on stakeholders while the impact of shareholders will be more diverse and less influential.

Nature of Output	Organizational Status	
	Task-Oriented	Market-Oriented
Product Goals	1	3
Capacity Goals	2	4

- ✓ Companies and business organizations should seek guidance through a self-appraisal. Minnesota Cause Connection offers an online "Checklist: What's your level of corporate social responsibility" (Speeter) that would work for nearly every industrial and service sector company. The checklist also nudges users to seek higher levels of CSR.

- ✓ Top corporate management and boards of directors should work toward limiting potential problems that might arise from Citizens United-fueled political donations. Union representatives and employee groups along with fellow stakeholders who manage a corporation's charitable foundation or community outreach programs should have equal influence with operations, finance and governmental affairs managers on CSR and campaign finance decisions.

Stakeholder group responses to CSR and shareholder interest

Stakeholder groups seeking collaboration on key Minnesota public policy issues, such as early childhood education, anti-poverty, the environment, and workers' rights, have a variety of umbrella organizations with which to start. Minnesota Council of Nonprofits, the Joint Religious Legislative Coalition, and the AFL-CIO are three leading organizations that can serve as commencing points to band together stakeholders.

From the shareholder and management perspective, German business leaders have a valuable organizational chart that offers stakeholder groups a seat at the corporate table (Zimmermann and Maenning).

Consider this diagram:

A PROCEDURE FOR IDENTIFYING KEY STAKEHOLDERS Position and Core Functions of the Stakeholders				
Creating a Matrix	**Roles and Legitimacy**	**Resources and Responsibility**	**Relationships**	**Discussion on forms of key stakeholder involvement**
Stakeholder Group 1				
Stakeholder Group 2				
Stakeholder Group 3				
Stakeholder Group 4				

Assessment Values: Rank as Strong, Medium or Weak.
Adapted from: "Mainstreaming Participation." Federal Ministry for Economic Development and Development (Germany).

If we are to build a cooperating Minnesota culture and enjoy a sustainable economy, new businesses and company practices are necessary. This means recognizing stakeholder interests, even when the stakeholders possess few legal rights. It also means companies must balance these goals while working to maximize shareholder value.

There needs to be an aligning of interests for the long-term benefit of both shareholders and stakeholders. Publicly traded and closely held corporations, managers and boards should look for ways to increase employee equity holdings in the firm. Ideally, such holdings would combine with pension funds to represent more than 5 percent of common, or voting stock, thus requiring visibility in Securities and Exchange Commission filings. (Organizing such a convergence of interests might be difficult within companies in the absence of unions.)

Finally, boards of all enterprises, regardless of ownership structure, should require managers and key officers of their firms to be engaged in something that Jensen calls "greater than themselves." This would have the effect of reminding corporate officers of stakeholder interests, it would help keep companies focused on ethical behavior, and it suggests that companies would benefit by refreshing officers in problem solving.

APPENDIX A:

Minnesota Governor Mark Dayton has Vetoed 12 ALEC Bills Since Taking Office

1. SF 1047: This legislation includes a number of ALEC Budget Reform Toolkit Recommendations, including an across-the-board state workforce reduction, zero-based budgeting, a gainsharing program, a Sunset Commission, and undermining collective bargaining.

2. SF 509: This legislation requires eligible voters to produce photo identification at the polls is an unnecessary hurdle to law-abiding citizens exercising their right to vote. It is a costly bill that has a number of unintended consequences, the most significant of which is that it could prevent many Minnesota seniors, students, the disabled and veterans from voting.

3. HF 264: The Personal Responsibility in Food Consumption Act, or Cheeseburger Bill, would limit the ability of Minnesotans to hold food and beverage companies accountable when their products cause consumers to suffer from adverse health conditions due to weight gains.

4. SF 149: This bill makes it more difficult for citizens to pursue class action lawsuits against corporations because it delays evidence gathering until all appeals about the legitimacy of the class have been exhausted. This process could go on for years, meaning witnesses might forget the details of their testimony.

5. SF 373: This bill reduces the statute of limitations for Minnesotans to file claims against corporations from six to four years. This bill means that victims of corporate wrongdoing would potentially need to hastily file their claim to stay within the four-year time frame, even if they aren't sure of the full extent of the harm they suffered. This bill is modeled on recommendations from ALEC's Tort Reform Boot Camp report.

6. SF 429: This bill would discourage Minnesotans from going to court when they have been wronged and attorneys from taking cases to hold corporations accountable. As Common Cause MN points out, the reason behind attorney fees is that the damages awarded are typically small, so the consumer can't afford an attorney and/or attorneys will only take cases in which they are compensated. This bill is modeled on recommendations from ALEC's Tort Reform Boot Camp report.

7. SF 530: This bill limits corporate liability by regulating interest rates owed to consumers who win personal injury/wrongful death lawsuits. This bill would change the interest rate to 4%, which is much lower and would make corporations more likely to continue in court rather than pay awards. This bill is modeled on recommendations from ALEC's Tort Reform Boot Camp report.

8. HF 1467: This bill—Minnesota's proposed "Castle Doctrine", or "Shoot First" bill—would have been even worse than the Florida law that recently received national attention for its role in Trayvon Martin's death. It would mean no duty to retreat in a person's home, and a great many other places such as your porch or garage. It is modeled after multiple ALEC bills, including the Emergency Powers Firearm Owner Protection Act, the Concealed Carry True Reciprocity Act and the Castle Doctrine Act.

9. SF 1236: This bill would have limited the legal liability of a company that buys or merges with another company that in any way dealt with asbestos. The legislation in Minnesota benefits only one corporation--Crown Cork and Seal. It has a vested interest in the legislation because it acquired a small company that installed asbestos. It is modeled after ALEC's Successor Asbestos-Related Liability Fairness Act.

10. HF 1976: This legislation would require the state to run all newly hired employees through the E-Verify program, which checks work eligibility in the United States. E-Verify is a part of Arizona's controversial SB 1070 immigration bill, which became ALEC's No Sanctuary Cities for Illegal Immigrants Act.

11. SF 1933: This bill would establish a multistate compact to take over health care programs from the federal government. It would allow the states involved to bypass federal health care regulations and programs, including Medicaid, Medicare and the Affordable Care Act. ALEC adopted the Health Care Compact as model legislation on November 30, 2011.

12. HF 1870: This legislation gets rid of the Last In, First Out (LIFO) policy, which protects teachers with the most seniority when school districts are hit with layoffs. Instead, this bill aims to tie layoffs to teacher performance as well as other factors. ALEC mentions LIFO as "illogical" in its Report Card on Education and some ideas are pulled from ALEC's Great Teachers and Leaders Act.

Courtesy of Alliance for a Better Minnesota

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