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## Values and Freedom

An Inquiry into the Rise and Fall of Billionaire Wealth

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# Values and Freedom: An inquiry into the rise and fall of billionaire wealth

Key words: values, freedom, axiology, billionaires, wealth

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## PREFACE

“I have seen what I have seen with my eyes. I have felt what I have felt with my heart. I have touched what I have touched with my hands. Not because I have stood on the shoulders of giants, but because I have stood among men and women, and crawled with little children.”

- Sir Maw

I am deeply and sincerely grateful for the unique mid-life opportunity I have been given to pursue my doctoral dissertation. This dissertation would not have been possible without the legal, economic and social environment that exists in Finland today. I would not have had the opportunity and encouragement to pursue my dissertation without the beliefs and work of so many others that have helped to build our society and its institutions as they are today.

During the course of this dissertation I was awarded a leave of absence as allowed by Finnish law from my employer, IBM, from October 2006 to March 2010. During this time my son Oliver grew from 2 to 6 years and Emilia was born and turned 4 years of age. My decision to pursue full time studies on a fraction of a salary in order to study the wealthiest people in the world may have seemed comical and absurd, but it turned out to be highly invigorating and led to a healthy process of re-assessing my own values and form of life.

Any benefits from the findings of this dissertation can only in part be attributed to me. Yet, I alone am responsible for its errors and shortcomings. Countless discussions and interactions both inside and outside academia have contributed to my work in places such as the Akateeminen Sauna Seura, Teen Ystävät, Hanken Student Union, Sporttiklubi, Sählyklubben or just among family and friends. Nevertheless, beyond the contemporary discussions the possibilities to study the thoughts and works of previous generations both inside and outside academia have been vital for my work. As such, I'd like to call into attention something that has made the research process truly exciting for me. Research has never been what it is today. The sheer possibility to access the thoughts of both ancient and contemporary thinkers as well as the commentary on their lives and ideas through online media outlets such as Wikipedia, YouTube, Project Gutenberg, Google Scholar, Ebsco and tools such as PcGive, SPSS, Nvivo has been both thrilling and uniquely empowering.

In an attempt to thank a few select individuals along this journey, I would like to especially thank my supervisor, Professor Martin Lindell for his rare openness and

support in giving me the freedom to pursue the dissertation in the manners I have chosen, despite my unconventional research interests. A big thank you for that, Martin!

Furthermore, I would like to thank Niklas Ahlgren for his comprehensive knowledge and patience in helping me with the quantitative analyses involved in this dissertation. I have in particular appreciated your professionalism, encouragement and kind help throughout the process. Thank you, Niklas!

I am also highly thankful for the financing provided to me by the Jenny and Antti Wihuri Foundation, Wallenberg Foundation, Hanken Foundation and Liikesivistysrahasto, for enabling me to pursue my studies full-time and present my research results at various conferences.

Overall, by far the greatest gift that the doctoral process has given me has been the many wonderful people and colleagues I have had a chance to meet, discuss and share moments with both at Hanken and overseas. Herein, I would especially wish to thank Aino, Alexei, Anna-Mari, Bobi, Catarina, Cliff, Dmitri, Edyta, Eero, Eric, Fredo, Henrik, Henrika, Hertta, Inkku, Jeff, Jennie, Jonnu, K.T. Karl-Erik, Linus, Martin, Mats, Matte, Mikko, Niranjana, Oskari, Patrick, Paulina, Philip, Rem, Saku, Sanne, Tamara, Teemu, Tina, Tom, Tricia, Tuula, Vita and Wille for all the great moments we have shared. Furthermore, it serves to note that this dissertation would never have been born without the unique atmosphere present at Hanken, The Department of Management and Organization and especially our third floor years “down under”. In addition, I would like to direct a special thank you to the unique institution of Perho, including its wonderful students, staff and the “Perho Parliament” consisting of Pekka, Kaj, Veli-Pekka, Veikko, Eero, Jouko and others, gathering together for delicious lunches and cross-generational, contemporary discussions of all things between heaven and earth. My sincerest thanks to all named and unnamed for making these distinctively humane and inspiring institutions possible.

Finally, I’d like to direct a special thank you to my family. There are countless ways in which I have written my love for and appreciation of you Kristiina, Oliver and Emilia, into the following pages. Ultimately, you together with our extended family including: Risto, Agneta, Peeter, Valentina, Mia, Pete, Julia, Carina, Janne, Camilla, Tiger, Taica, Aleksander, Kristi, Kristoffer, Mummi, Ukki, the Wartiovaara family and other relatives have made both me and this dissertation what we are today. In many ways the texts I have written are re-creations of the moments, the multivocal discussions and the life

that we have had a privilege to share together. Nevertheless, writing the dissertation has not only meant many lonely hours in front of the computer, but most of all many lost moments and missed laughter away from you. These will never be regained but I hope we will find many new ones in the coming days given to us, instilled with new-found vitality.

In the end, as a word of warning to you my dear reader, I have little possibility to understand the effects my writings will have on you. I, nevertheless, hope that the benefits will outweigh the harm that unavoidably exists. Consequently, I urge you to take the appropriate responsibility and to make the most of these forthcoming thoughts and insights for the future interests of both you and your stakeholders.

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## 1 INTRODUCTION

The aim of this chapter is to introduce the topic of individual values and wealth in society, as well as outline the aim of the study, its limitations and its structure. It furthermore aims to provide background information on the study as a whole, to discuss the study's relevance, and consider the unavoidable ethical questions involved in the pursuit and publication of such a dissertation.

### 1.1. Individual values and wealth in society

“The disposition to admire, and almost worship, the rich and powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments.”

(Adam Smith, *The Theory of Moral Sentiments*, 1790, Chap III: 53)

Many different forms of entrepreneurship have been studied within existing entrepreneurship literature, such as forced entrepreneurship, serial-entrepreneurship, intrapreneurship and family entrepreneurship just to name a few. However, billionaires and billionaire entrepreneurship has been a largely overlooked topic within existing literature. The creation and concentration of such extreme forms of wealth is a fascinating mystery in itself, giving rise to the main research question of my dissertation, i.e. “What explains the rise and fall of billionaire wealth in the world?”

The decision to study and publish a dissertation focused on this topic unavoidably raises a number of ethical questions in itself. Why study the select group of billionaires in the world instead of the billions of people living in material or immaterial poverty in the world? Aren't there even more critical topics to explore in order to understand, for instance, what explains instances of extreme poverty in the world? Is this dissertation yet another expression of what in Adam Smith's words could be termed as our “corrupted moral sentiments”? Or is it an expression of something else? If anything, my dissertation project has taught me to avoid formulating easy answers to complex phenomena. There are and have been infinite causes and influences both within and beyond my understanding that have led to the research question and the doctoral dissertation as it is today.

As a whole, my doctoral dissertation has in many ways been, in Joseph Schumpeter's (1943) entrepreneurial terms a personal process of “creative destruction” or in more

contemporary entrepreneurial terms (Dew, Read, Sarasvathy & Wiltbank, 2011; Sarasvathy & Dew, 2005) a personal process of “transformation” of my world view and the subject in question. Overall, the dissertation process has provided me a unique possibility to question much of my previous learning and assumptions while highlighting the fragility of our understanding of each other and of the world we live in. Furthermore, in addition to considering the causes of this dissertation I have increasingly grown cautious of the resulting effects of this dissertation. What good does this study do and for whom? How does yet another study on the wealthy affect the values of its readers? Does this lead to yet another unjust form of re-enforcing the admiration of the rich and powerful? Or will this study lead to something else? And what undesirable effects will it have and for whom? These rhetoric questions raise obviously significant concerns that have no absolute answers. However, I invite you to consider the stakeholder effects as you take part in reading and co-creating the effects of this work.

Furthermore, as a prelude to this work, I would like to share another insightful reflection of Adam Smith, the source of substantial reflection both for me personally and for this dissertation in question. In his words:

“To deserve, to acquire, and to enjoy the respect of mankind, are the great objects of ambition and emulation. Two different roads are presented to us, equally leading to the attainment of this so much desired object; the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness. Two different characters are presented to our emulation; the one, of proud ambition and ostentatious avidity; the other, of humble modesty and equitable justice. Two different models, two different pictures, are held out to us, according to which we may fashion our own character and behaviour; the one more gaudy and glittering in its colouring; the other more correct and more exquisitely beautiful in its outline: the one forcing itself upon the notice of every wandering eye; the other, attracting the attention of scarce anybody but the most studious and careful observer.” (Smith, 1790:54)

While the words of Adam Smith bring forth an important message, a literal acceptance of the above mentioned separation of roads, I have found particularly challenging. This separation manifests itself also in his two main works, i.e. *The Wealth of Nations* with its focus on economics and *The Theory of Moral Sentiments* focusing on ethics. Consequently, in subsequent literature there has been much controversy concerning the role and interplay of economic values and other values in society. Many contemporary authors would take a somewhat different view than Adam Smith as expressed by this citation and the division of his work. Notably Amartya Sen’s (1987) book *On Ethics and Economics* specifically suggests that these two subjects are inherently entangled and a false dichotomization of the two impoverishes both sciences.

R. Edward Freeman (1994:412) has in turn summarized particularly well the dichotomy of separating the discourse of business from the discourse of ethics in a principle that he calls “The Separation Thesis”. According to this thesis:

“The discourse of business and the discourse of ethics can be separated so that sentences like, “x is a business decision” have no moral content, and “x is a moral decision” have no business content.”

Freeman continues to argue that the whole point of the stakeholder theory is to deny The Separation Thesis and the associated principles. He further argues (1994:412) that as long as business and ethics are treated separately, business theorists are given the freedom “to make up supposedly morally neutral theories such as agency theory which can be used to justify a great deal of harm”. Issues of ethics unavoidably exist in all aspects of business. All of our decisions unavoidably have ethical consequences - like it or not. This dissertation shares Freeman’s fundamental viewpoint. The perspective that ethics and business are separate entities is hence regarded as seriously misleading. People’s ethics and values in business may just be highly different, even incomprehensible or unacceptable at times. The Separation Thesis and its implications have since been of significant interest for a number of contemporary business ethicists (cf. Sandberg, 2008a & 2008b, Wempe 2008, Dienhart, 2008, Harris and Freeman, 2008). However, on a grand scale the discourses of business and ethics are still in many instances all too separated, largely due to the institutions, theories and concepts shaping many of our contemporary societies. This separation is reinforced on a multitude of levels and is even often passed by as unrecognized, as John Maynard Keynes (1953:306) highlights well in his famous words:

*“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences are usually the slaves of some defunct economist.”*

Furthermore, the challenge that this poses on an individual level has in turn been well articulated by Ludwig von Mises in his magnum opus *Human Action* (1996:878-879):

“Economics must not be relegated to classrooms and statistical offices and must not be left to esoteric circles. It is the philosophy of human life and action and concerns everybody and everything. It is the pith of civilization and of man’s human existence...There is no means by which anyone can evade his personal responsibility. Whoever neglects to examine to the best of his abilities all the problems involved voluntarily surrenders his birthright to a self-appointed elite of supermen. In such vital matters blind reliance upon “experts” and uncritical acceptance of popular catchwords and prejudices is tantamount to the abandonment of self-determination and to yielding to other people’s domination. As conditions are today, nothing can be more important to every intelligent man than economics. His own fate and that of his progeny is at stake...Very few are able of contributing any consequential idea to the body of economic thought. But all reasonable men are called upon to familiarize themselves with the teachings of economics. This is, in our age, the primary civic duty...Whether we like it or not, it is a fact that

economics cannot remain an esoteric branch of knowledge accessible only to small groups of scholars and specialists. Economics deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen."

While, I have come to agree with von Mises on the ultimate responsibility of the individual and the importance of making economics less esoteric and more understandable and accessible for all, I have grown wary of its many harmful effects. I have become particularly worried about different forms of economic extremism and economic fundamentalism existing in our societies today. In contemporary societies where the influence of economists holds sway; economic values all too often dominate other values in harmful ways. By reducing our understanding and rationale to economic causes and effects we unavoidably violate other values. On an individual level, the roles and values of people such as e.g. medical doctors, teachers, chefs or even family members have all too often been negatively transformed due to the institutionalized and pervasive search for financial profits. The pervasiveness of economic thought has been well summarized by Ludwig von Mises (1996:878):

"All present-day political issues concern problems commonly called economic. All arguments advanced in contemporary discussion of social and public affairs deal with fundamental matters of praxeology and economics. Everybody's mind is preoccupied with economic doctrines. Philosophers and theologians seem to be more interested in economic problems than in those problems which earlier generations considered the subject matter of philosophy and theology. Novels and plays today treat all things human—including sex relations—from the angle of economic doctrines. Everybody thinks of economics whether he is aware of it or not."

While extensive reviews and investigations of the different economists can relieve one from unnecessary misconceptions and allow one to take alternative standpoints on issues, problems emerge within economics that are constant and reoccurring. Most of people in society do not have the possibility to dive into the fundamentals of the discipline and are as such all too often victims of the interpretations of some "defunct economists" as warned by Keynes.

Fortunately, some important critical voices have arisen that call attention to the current state of affairs. Marglin (2008) deftly points out in his popularized critique how the foundational assumptions of economics lead individuals to become isolated from one another and how social connections are impoverished as people define themselves in unfruitful ways. Ghoshal (2005) in turn has provided a particularly poignant critique: noteworthy warning on the dangers of bad management theories in destroying good practices. Furthermore, others (Ferraro, Pfeffer and Sutton 2005; Frank, Gilovich and Regan, 1993) have similarly underscored that we tend to enact the very theories that social theorists propose. Rocha and Ghoshal (2006:586) have further highlighted the challenges in theories such as agency theory (Jensen and Meckling 1976), transaction

cost economics (Williamson, 1975) industrial organization (Porter, 1980) and Burt's version of the structural approach to social networks (Burt, 1982) that take self-interest as a key assumption upon which they build their models and propose their prescriptions.

In this dissertation I will build further on the topic of individual value creation and its extremes. At the core of this study is the endeavor to develop from an axiological or value theoretical perspective a holistic approach to understanding individuals and their stakeholders, for a better and more fruitful definition of ourselves, each other and the world we live in. Freeman et al. (2010:285) find that the way people talk in the social sciences affects what people see and how they live. Ultimately, this can be translated from a stakeholder perspective into who people think they are and whom they are with. The theories that people create and the stories they tell tend to become self-fulfilling prophecies. The over-dominance of monetary terms within the discipline itself leaves all too little room for alternative perspectives on value creation. Ultimately, at the theoretical core of different forms of economic extremism and fundamentalism is the loss of humility and humanism. A great deal of economics is based on defunct and partial conceptions of human beings, with unavoidable negative consequences on a multitude of levels amongst others by providing detrimental perspectives of individual responsibility of oneself and others as well as by inhibiting a comprehensive perspective on value creation in multiple ways.

Increasing scholarly interest is now being directed towards the intersection of ethics and entrepreneurship. However, according to Harris, Sapienza and Bowie (2009) the bodies of research connecting entrepreneurship and ethics involve many different research areas, such as entrepreneurial ethics, social entrepreneurship as well as entrepreneurship and society, to name a few. Herein, according to Harris et. al. (2009:410) "a relatively unexplored area of research is the application of stakeholder theory to the unique and intensely personal stakeholder relationships that center around the entrepreneur". As such, this dissertation seeks to further develop the stakeholder theory of the individual in order to create a deeper understanding of the notions of an entrepreneur and entrepreneurship. As such, the core theoretical focus of this dissertation is stakeholder theory as a particular branch of business ethics, and by extension, its intersection with entrepreneurship as put forth by the Ruffin Series Publication (Freeman & Venkataraman eds., 2002) and other entrepreneurship

researchers (Dew, Read, Sarasvathy & Wiltbank, 2011; Mitchell & Cohen, 2006; Schlange 2009; Vandekerckhove & Dentchev, 2005).

Within the field of entrepreneurship the question of ‘Who is an entrepreneur?’ is a long-standing one (Baumol, 1968, Brenkert, 2002; Gartner 1988, 1990, 2001; Hebert & Link, 1989; Lazear, 2005). The word “*entrepreneur*” is originally a French word, referring to a person who is active and achieves something. The corresponding French verb “*entreprendre*” means to undertake something (Landström, 2010). Another way of interpreting it could be by dissecting the words into “*entre*” and “*prendre*”, which in English could be translated as “*in between*” and “*to take*” respectively, giving quite a distinct interpretation to entrepreneurship. In Finnish, the word “*yrittäjä*” for an entrepreneur in turn refers to a person who tries (“*yrittää*= to try”). Mises (1996) defines entrepreneurship as a characteristic that can be found anywhere and at any point in time. As such, ultimately all individuals can be entrepreneurs or active at something. The main difference between individuals is then the degree and kind of activities pursued. In my dissertation, I will follow Mises definition of entrepreneurship and venture into studying a unique category of entrepreneurs in the material extreme, i.e. the world’s billionaires.

In my dissertation I have made a more or less deliberate decision to seek out guidance in realms beyond the fields of mainstream business literature. At the core of my search have been the notions of value and value creation. What is more, I have been especially interested in alternative conceptions of individuals. Ultimately, my approach to understanding individuals has not been that of trying to define who we are, but rather that of who we can become. Furthermore, I have come to learn that the search to define and understand value has been a focus of a multitude of discourses across disciplines including philosophy, sociology, economics, psychology and aesthetics. The search for a theoretical understanding of value has enabled me to explore different forms of axiologies, or theories of value. In my search for a suitable theoretical outlook I have found stakeholder theorizing in particular the most fruitful basis for the task at hand, i.e. for the attempt to understand individual value creation in general and the rise and fall of billionaire wealth in particular.

In order to properly address this topic, I decided to approach my main research question in this dissertation, “What explains the rise and fall of billionaire wealth in the world?”, with three levels of inquiry: *societal*, *individual* and *decision-based*. There are obviously a number of different means of trying to understand the phenomena. The

three chosen levels of analysis in my corresponding essays are far from complete and serve only as introductions to understanding the underlying phenomena. This multilevel approach is intended to give a complementary picture of value creation by individuals and our institutions. In order to address the topic in my first essay on a *societal* level, I turn to a long-standing debate within economics concerning economic freedom. Here, I investigate the effects of societal policies over time in particular with regards to their effects on billionaire wealth creation over a period of 15 years, from 1994-2009. In order to address the topic in my second essay on the *individual* level, I choose to make a theoretical exploration of extending contemporary stakeholder theory on an individual level of analysis in order to provide a better understanding of individuals and their forms of value creation. Furthermore, in order to address the topic in my third essay on the *decision-based* level, I have primarily developed current theories associated with economic rationality in the context of one billionaire, Warren Buffett, and his decision to give his money away to charity. However, it serves to note that the different levels of analysis are unavoidably intertwined and affected by our conceptions of human beings, freedom and responsibilities. This multilevel approach aims to provide an introduction to the multitude of factors and actors influencing our various forms individual and social value creation. Overall, the rationale of studying such economic outliers as the world's billionaires was seen instrumental for enhancing our theoretical understanding of individual value and wealth creation in general by exploring the phenomena in its extreme. It was the expectation that by studying these extreme cases, certain forms of value creation and normally non-apparent forms of behavior would become more visible to the reader. In what way these expectations have been realized and whether the acquired insights are beneficial is now open for your judgment.

## **1.2. The aim of the study**

The aim of my study has changed considerably over time. The underlying objective has been to create something of value. However, my understanding of and relationship to the notion of value and my own stakeholders has changed and developed significantly during the process of my dissertation. I have personally come to regard my own form of value creation as improving the lives of my stakeholders. The main research question of my dissertation has in turn been to explore:

**What explains the rise and fall of billionaire wealth in the world?**

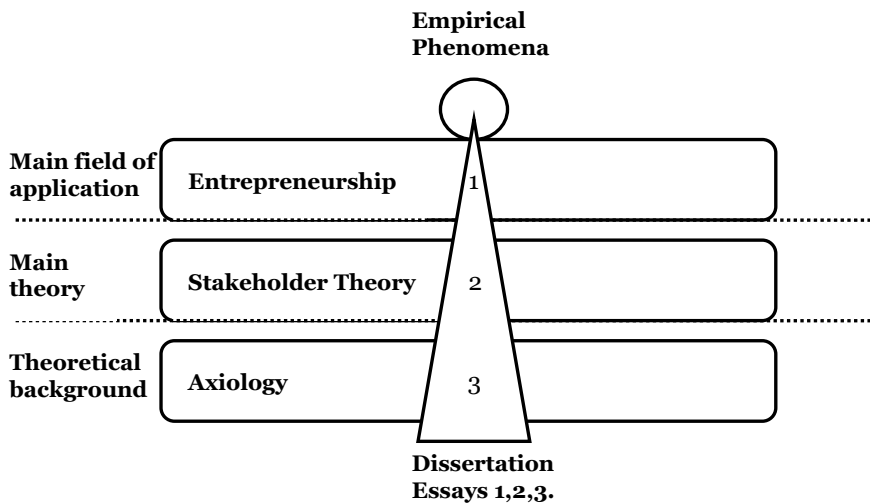
The main theoretical aim of my dissertation has further been to develop our understanding of individual value creation and its extremes. Theoretically, the dissertation seeks to contribute to value theory in general and stakeholder theory in particular by developing the stakeholder theory of the individual. The theoretical development of the stakeholder theory of the individual is further discussed and reviewed in the context of entrepreneurship research. In the essays, I decided to address the phenomena further on three distinct levels of analysis: societal, individual and decision-based.

Consequently, the main research question of the dissertation has been further broken down into three lesser aims for each of the essays.

- The first aim of the quantitative empirical essay has been to explore the effects of economic freedom on billionaire wealth formation.
- The second aim of the theoretical essay on stakeholder theory has been to develop our understanding of individual value creation and its stakeholders. It exposes different sources of economic and other values for individuals at large.
- The third aim of the theoretical essay on individual rationality has been to further explore the notion of individual value creation in particular with regards to Warren Buffett's decision to give his money away.

As a whole, my dissertation focuses on developing its theoretical argumentation based on three distinct domains of knowledge, i.e. axiology, stakeholder theory and entrepreneurship, as presented in Figure 1. The theoretical background of my dissertation is based on axiology, or value theory. The domain of axiology itself is today a fragmented field of research and not as systematized as established disciplines like philosophy, economics or management that are researched and taught the world over. The axiological argumentation of today is developed both by individual thinkers as well as select more established axiological theorists, with cross-scientific insight from moral philosophers, economists and business scholars. As such, the theoretical background of

my dissertation chapter focusing on axiology in general is intended and limited to provide an introduction to some of the foundational beliefs underpinning my research project alone. The main theoretical focus of my dissertation focuses in turn on one particular form of axiology, i.e. stakeholder theory. It was chosen not only due to my fundamental personal appeal to it, but also due to its merits as the leading business ethics theory and its wide acceptance status within contemporary management research. Stakeholder theory's solid roots in business ethics literature provide, in my mind, a balanced approach for addressing the selected, potentially inflammatory theme of billionaire wealth. The main theoretical aim of my research project is focused on contributing to this body of research by developing the stakeholder theory on an individual level of unit of analysis. Furthermore, my dissertation aims to apply insights from the existing and developed body of stakeholder theorizing to further enhance our theoretical understanding in the domain of entrepreneurship. Each of the essays included in the dissertation relate to the three main bodies of literature, thus providing a successively deepening perspective on the phenomena.



**Figure 1 Overview of the theoretical basis of my research**

Finally, on a personal note, it serves to acknowledge that my study has been a part of a greater personal goal: to attempt to live and define what a good and valuable life is all about. During the course of my dissertation I have come to significantly question,

develop and reassess my own notions of what is of value, how it is created and for whom. Initially, my desire to pursue a doctoral dissertation grew out of amongst others a personal frustration with the pervasive contemporary and often one-sided societal discourses on success. At the outset, I wanted to explore an alternative orientation, namely the notion of greatness. However, as a result of a multitude of influences I decided to investigate the rise and fall of extreme individual wealth, i.e. the world's billionaires. The core theoretical and empirical focus has been to enhance our understanding of the effects of individual values and freedom on wealth. Now, in its finished state, I hope that my dissertation can provide a perspective on individual value creation and its extremes, that has been of transformative value for me and that can be somehow of value for others as well.

### **1.3. Limitations of the study**

This study has several limitations concerning the study as a whole as well as the individual essays.

The theoretical part of the study on value theory has its own limitations. Despite the value of the chosen approach, I am keenly aware of the limits of this dissertation and the value of additional perspectives that other disciplines such as economics, economic history, sociology and psychology among others could bring forth with regards to the chosen phenomena of billionaire wealth. As such, this study cannot be more than an introduction of one perspective and an invitation for others to join in to foster a broader and more multi-disciplinary understanding of the phenomena in question.

The notion of value, or 'the good', is a topic that has continued to interest people throughout the ages, discussed repeatedly by economists, philosophers and all the major religions. My account of the topic and further exploration of it within stakeholder theory can hardly be sufficient. As it provides only one account of the matter, my contribution should rather be seen as a summary of a work in progress. To examine the development of our understanding of individual value creation within the context of the stakeholder debate, I chose to limit the analysis to the view points of two main authors in particular, i.e. R. Edward Freeman and Michael Jensen. Their views were chosen not only because they appealed to me, but also due to their central and influential roles within the stakeholder vs. stockholder debate. Likewise, the effect of different forms of freedom has also been a core focus of a centuries-long debate. My summary has been crafted to serve as a background to the empirical study in question and as a deliberate

attempt to discuss the importance of individual responsibility in conjunction with the discourses on liberty.

The macro-level study, which focuses on the evolution of billionaire wealth in the world, has its own limitations as well. Firstly, the study is based on a limited period of time: the 15 years between 1994 and 2009. The period analyzed does not include data on the billionaire wealth recovery after the financial crisis. Furthermore, the empirical study is constrained to available data for the time period. It primarily relies on data from Forbes Magazine, the Wall Street Journal/ Heritage Foundation and the World Bank. As such, the analysis is unavoidably a simplification of the immense array of factors affecting billionaire wealth. Furthermore, the study is done on an aggregate level including the whole population of world's billionaires. It is not able to explore industry-specific or individual-specific characteristics that may affect their wealth. As such, the study can only serve as an explorative introduction to the field, rather than a conclusive study on the subject. Additional research is undoubtedly called for in order to provide a more nuanced and detailed understanding of the phenomena.

As with the previous example, the study's theoretical essay on individual value creation and its stakeholders is limited to an introduction to the stakeholder theory of the individual. Stakeholder theorizing essentially provides us with only one framework for understanding individual value creation. It is particularly well focused on identifying with whom and for whom we are creating value. The effects of the material and immaterial things we exchange with that are not stakeholders in themselves are only of instrumental and therefore marginal concern.

Furthermore, the study's theoretical essay on economic rationality involving the illustrative case study on Warren Buffett's decision to give away his money to charity has its own limitations. First of all, it is based on secondary data from books, internet websites, magazines, news articles and video-clips. As such, the essay serves as a theoretical exploration for evaluating alternative models explaining human behavior. In particular, it is limited to comparing the resourceful, evaluative, maximizing model (REMM) with the economic (or money-maximizing) model of human behavior. A theoretical framework is developed in order to enhance our understanding of 'individual value creation' and to seek an economically rational explanation to the question: Why is Warren Buffett giving his money away to charity? The feasibility of generalizing from his set of values and unique situation for others is clearly

questionable. Nonetheless, the case can serve to open up a discussion concerning the complexities involved in attempting to understand individual value creation.

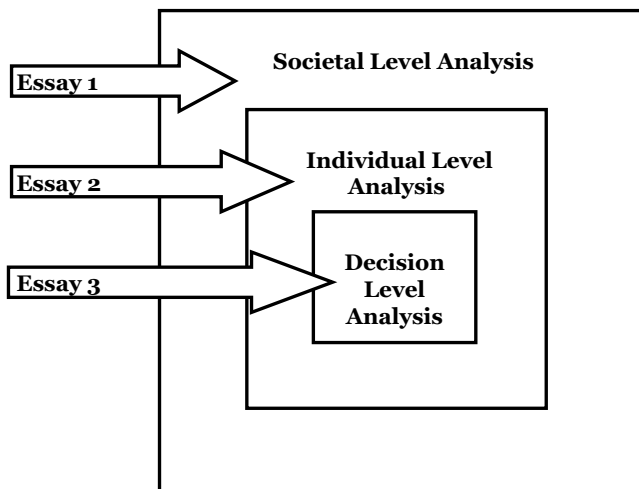
My choice to address the research question primarily on three levels of analysis poses limitations of its own. The empirical material on billionaires would lend itself to some highly interesting analysis on a company-based and industry-based level as well. Studies into the effects of different industries and characteristics of the billionaire firms as opposed to entrepreneurial firms in general could open up valuable new insights into the wealth creation mechanisms of billionaires.

Overall, this study is highly indebted and limited to a range of preceding authors and literature both within and outside the fields of management and economics. Much of the literature has fallen beyond conscious recollection, despite having served to mold my ideas into their present form. The dissertation references are mainly limited to stakeholder theory, entrepreneurship and the debate on economic freedom. Although, I must recognize that I have sought inspiration much more widely in efforts to provide an appropriate context for the dissertation at hand.

Finally, I would like to still highlight that both the chosen topic and my treatment of it unavoidably reflect a series of conscious and unconscious personal value-judgments from my part. In my outlook on science I have come to reject the notion of value-free science. In my view, all scientific endeavors are attempts to increase our understanding of and hence change the world. Regardless of their classification as natural or social sciences, these endeavors have unavoidable ethical consequences. Scientists are responsible for the truthfulness and the consequences of their work. As such, let me express my credo and its limitations at the start. I am a deep believer in individuals and the unique value each of us represent. In my value system, individuals are more important than firms and organizations. My version of stakeholder theory is hence not managerial but rather individual-centric. Furthermore, my understanding of freedom departs significantly from many market liberalists, as I emphasize a more holistic appreciation of both individual freedom and responsibility. In conclusion, I cannot but recognize the severe limitations of my own as well as others understanding of the world and the actors within it. As such, I remain fundamentally humble concerning the ability of this dissertation to solve the mystery at hand. In my view it may at best serve as an inspiring and insightful introduction to the topic for further research and collaboration – together.

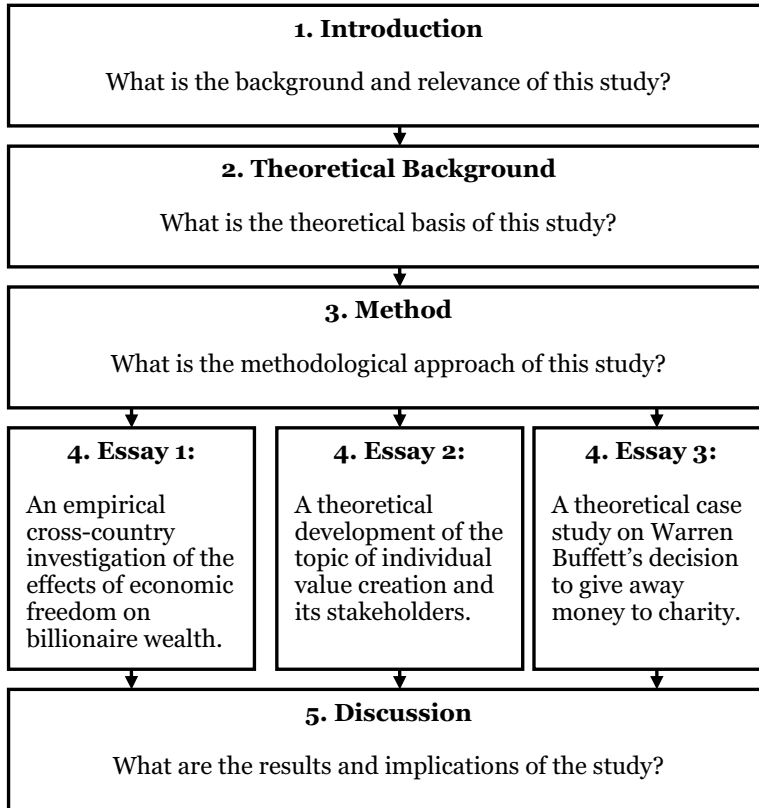
#### 1.4. The structure of the study

The structure of the dissertation is as follows. First, there is an introduction. Second, the theoretical basis of this study is presented concerning different theorizing on value and freedom. Third, the pragmatist approach and empirical method is presented. Fourth, the three essays on the chosen societal, individual and decision-based levels of analysis are presented and reviewed. The underlying aim of the essays and their chosen levels of analysis, as presented in Figure 2, is to give three mutually complementary perspectives on individual value creation and its extremes.



**Figure 2** The chosen levels of analysis for the study

As such, the dissertation is structured in a way that the first three chapters (1-3) summarize the background rationale, relevant theories and methodological approach in order to provide an appropriate basis for the chosen three levels of analysis (3 essays) of the phenomena itself. To finish, the overall theoretical contributions, empirical findings, implications and suggestions for further research are discussed. The structure of the overall study and the key topics per chapter is outlined in Figure 3 below.



**Figure 3** The structure of the study

## 2 THEORETICAL BACKGROUND

This chapter sets out to review the theoretical basis of the study with regard to its concurring theorization on value and freedom. The topic of value is discussed from the perspective of different axiologies, i.e. theories of value. I also present my own perspective: one that regards value as change and value creation as exchange. The chapter continues to review the key theoretical basis of this dissertation, i.e. stakeholder theory as well as extant theorizing on economic and individual freedom of particular relevance for this study.

### 2.1. Theories of value

#### 2.1.1. *In search of a definition*

“Well, although I do not suppose that either of us knows anything really beautiful and good, I am better off than he is,--for he knows nothing, and thinks that he knows; I neither know nor think that I know.”

(Socrates, in Plato, 2008:1)

The theoretical understanding of value has been of interest for philosophers, scientists and artists throughout the ages. The related notions of goodness and virtue were central concepts in the musings of the ancient Greeks. Socrates explored these and other related notions in philosophical dialogues with his fellow citizens of Athens. The Socratic method named after the philosopher is a form of inquiry or debate between individuals with opposing view-points, based on asking and answering questions that stimulate critical thinking and illuminate ideas. At the core of Socratic thinking is the value of dialogue rather than fixed definitions. Nevertheless, throughout the ages many have proposed their definitions and theories on what goodness, virtue and value is all about.

A fundamental cross-scientific discipline termed ‘axiology’ or value theory has been formed. The term itself stems from the Greek words *axios* meaning value or worth and *logos* meaning reason or theory. Axiologies are concerned with understanding what, how and why people value things. These theoretical insights on value have consequently had multi-disciplinary implications for a range of sciences, including psychology, sociology, ethics and economics. Some of the axiologies are the products of individual thinkers, others the focus of informal and formal groups of scholars and practitioners. The stakeholders of different forms of axiologies are many and diverse.

Historically, philosophers of ethics have especially been interested in the topic of value and goodness. G.E. Moore (2004) proposes in his magnum opus “Principia Ethica”, which he introduced as a prolegomena to future ethics studies, that most philosophers working in ethics have made a mistake he called the ‘naturalistic fallacy’. According to Moore, the naturalistic fallacy is committed whenever a philosopher attempts to prove a claim about ethics by appealing to a definition of ‘good’ in terms of one or more natural properties, such as pleasure, beauty and interest.

Moore had a significant influence on a range of axiologists. By example, R.S. Hartman (1967), the founder of formal axiology, builds on Moore’s argumentation in his seminal book “The Structure of Value” by defining value as ‘concept fulfillment’. Hartman among others develops a categorization of different forms of value and valuation, which he refers to as systemic, extrinsic and intrinsic, based on alternative conceptualizations of the subject in question. The legacy of his work has been carried forth by a number of scholars at the R.S. Hartman Institute. This dissertation is uniquely indebted to him and the practicing formal axiologists in our shared attempt to better understand the notion of value. This withholds even though some of the underlying beliefs in this dissertation respectfully depart from some of their core beliefs and forms of argumentation.

Overall, as a result of this dissertation I have grown cautious of any singular definition of value. Lamont (1955:xiii) even voices that it may not even be fruitful to attempt to answer the question “What is ‘good’/‘goodness’ or value?”. According to him experience shows that questions of “What is value or goodness” are in effect impossible to answer, which can serve to explain why it is so difficult to find a consensus within ethics and axiology concerning these concepts. As such, I have come to consider the topic of value in G.E. Moore’s terms an “open question”. No-one can have a monopoly on its definition. Ultimately, the concept of value is for each person to define. Nevertheless, the process of how we evaluate things remains inherently interesting. Do we assess the value of something primarily based on a subjective opinion, social influence, systematic analysis or various combinations of these? How is our valuation influenced by our personal characteristics of perception, our exposure to social influence and ideologies as well as our willingness and ability to systematically evaluate a particular phenomenon? Many interesting questions for further studies remain in this domain.

In order to expose my own beliefs it serves to note that I have come to develop my own perspective of *value as change*. In my perspective, value cannot be represented by any

single property such as money, beauty, wisdom or health, but rather as the sum of change in life as a whole. Just as with change, value can be both positive and negative. The notion of change itself brings forth interesting considerations as to the chosen reference point of change, i.e. change with regards to oneself, each other or any other chosen form of reference point. Overall, by seeing value as change, I have subsequently come to regard *value creation as mutual change or exchange*. Mutual change, exchange and value creation can take a multitude of different forms between the subjects of exchange.

Consequently, if we were to attempt to assess the value of this dissertation from the perspectives of value as change and value creation as exchange – how could we explain its value? In my mind, the value of this dissertation is ultimately to be assessed based on the sum of positive and negative change it has on our lives. In order to ascertain a balanced and detailed understanding of this dissertation's value multiple different physical, emotional, economical, intellectual, theoretical and social effects on its various stakeholders over time can be opened for consideration. Furthermore, from the perspective of value creation I have come to regard my dissertation process as a process of mutual change. The countless and various forms of dialogues and multilogues that I have had a privilege to take part in have had a transformative impact on me and my dissertation. Reciprocally, I hope that I have had a chance, at least to some extent, make a change for the better for others as well.

I have, furthermore, come to regard the act of valuation as an ultimate form of 'concept fulfillment', i.e. a change in one's worldview and consequently our very existence. As such, I regard valuation as something that cannot be done in isolation and with regards to a single concept, but in relation to the totality of our conceptions about us, other people and the world in general. Similarly, change to one part of the system never appears in isolation but always in interaction with others as well. Valuation is herein seen as a complex and comprehensive process of organizing the perceptions, emotions and ultimately the very existence of individuals. The notion of a worldview or '*Weltanschauung*' refers to a comprehensive set of concepts and ideas through which an individual interprets the world and interacts with it. The world should not be identified with notions like 'the earth', 'the cosmos' or the 'observable universe', but rather with the totality in which we live and to which we can relate ourselves in a meaningful way (Aerts, Apostel, De Moor, Hellemans, Maex, Van Belle & Van der Veken, 2007). The notion of worldview may further be described as a particular stance

or premise about the way we conceptualize our surroundings which further affects our interpretation of situations in a significant way (Hebel, 1999). Individual worldviews can be seen to consist of a range of multiple perspectives. A worldview may be seen as a manifestation of an individual's views of the situation at hand, the whole of one's life, one's stakeholders and the world at large. It can also be seen as an ontology or a descriptive model of the nature of the world. The worldview itself can comprise a range of elements including an explanation of the world, futurology, values and ethics, praxeology, epistemology and etiology, i.e. the entire conceptual framework of an individual. Regardless of the type of worldview, an essential component in the construction of a worldview is the individual, providing the origin of the perspective. A more thorough understanding of the individual, her relationships, forms of exchanges and identity orientations are essential for a deeper understanding of the origins of her worldview and forms of valuation.

According to Lamont (1955:10) ultimately a theory of value is equivalent to the theory of choice.

“It will be noted that Socrates' first proposition implies that a theory of valuation is a theory of choice. Choice is the external or overt expression of the internal state of valuation. To regard x as better than y is to have the internal disposition to act for the realization of x rather than y.”

While the perspective of values as choices serves its purpose, it is not without its own problems. So much of the changes in our lives are well beyond our conscious choices. Furthermore, a deeper reflection of our own role in the act of choice, unavoidably highlights the integral role of others and their decisions in determining the outcomes of our lives.

Finally, my dissertation process has led me to choose stakeholder theorizing as the most suitable perspective for my own theory development. Rather than arguing for this or the other worldview as the basis of valuation, I have come to realize the complexity, multiplicity and interdependence of different worldviews. Stakeholder theorizing inherently features a consideration of multiple perspectives on value-creation. Furthermore, I find that stakeholder theory makes a compelling value judgment for prioritizing people and life before money, wealth or any specific understanding of what value is all about. The following chapters will provide further insights into the foundations of this fascinating form of axiology.

### **2.1.2. Stakeholder theorizing**

Stakeholder theory is one of leading theoretical frameworks in contemporary business and business ethics literature available today. Since Freeman's landmark book "Strategic Management: A stakeholder approach" (1984), at least a dozen books and more than one hundred articles focusing on the stakeholder concept appeared within the following decade (Donaldson & Preston, 1995). The stakeholder concept and rationale have enjoyed remarkable recognition among leading business scholars as well as practitioners. Several special issues on the topic have been published, such as those found in the *Academy of Management Journal* (1999, vol. 42 n.5) and *Academy of Management Review* (1999, 24, April). At the national meeting of the Academy of Management in 2007 an "All-Academy" symposium was held on the current state of stakeholder theorizing. As a summary of the meeting, an article by Agle, Donaldson, Freeman, Jensen, Mitchell and Wood (2008) sorted contemporary stakeholder literature into three strands of work: 1) works concerning the basic debate (stakeholder vs. stockholder), 2) works that focus on the instrumental development of stakeholder approaches and 3) works that generate new questions in stakeholder theory research. Based on this meeting, Agle and Mitchell concluded that, "The stakeholder idea is alive, well and flourishing" (Agle et al., 2008: 153).

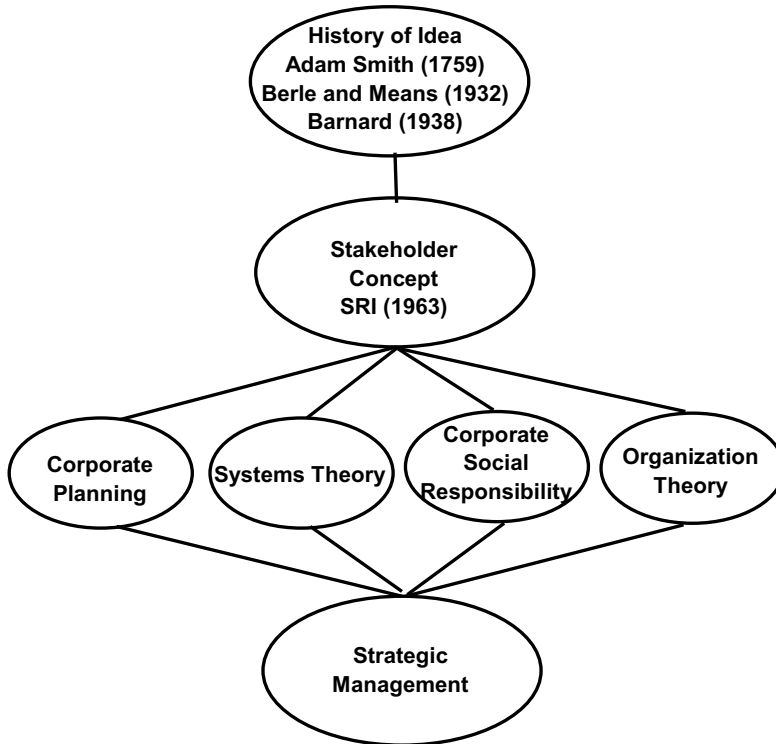
However, according to Freeman's (1994:413) somewhat paradoxical statement: "There is no such thing as the stakeholder theory". He continues to argue that:

"The stakeholder theory' can be unpacked into a number of stakeholder theories, each of which has a "normative core", inextricably linked to the way that corporations should be governed and the way managers should act. So attempts to more fully define, or more carefully define a stakeholder theory are misguided."

Furthermore, it is interesting to note that Freeman, Harrison, Wicks, Parmar and de Colle (2010) in their book "Stakeholder Theory: The State of the Art" refer to stakeholder theory as an art rather than science. While a multitude of empirical research has been undertaken with regards to stakeholder theorizing using scientific methods, the core of the theorizing, as with all social sciences, relies upon certain values, beliefs and notions of better versus worse. Consequently, I welcome referring to the body of stakeholder theorizing as an art form.

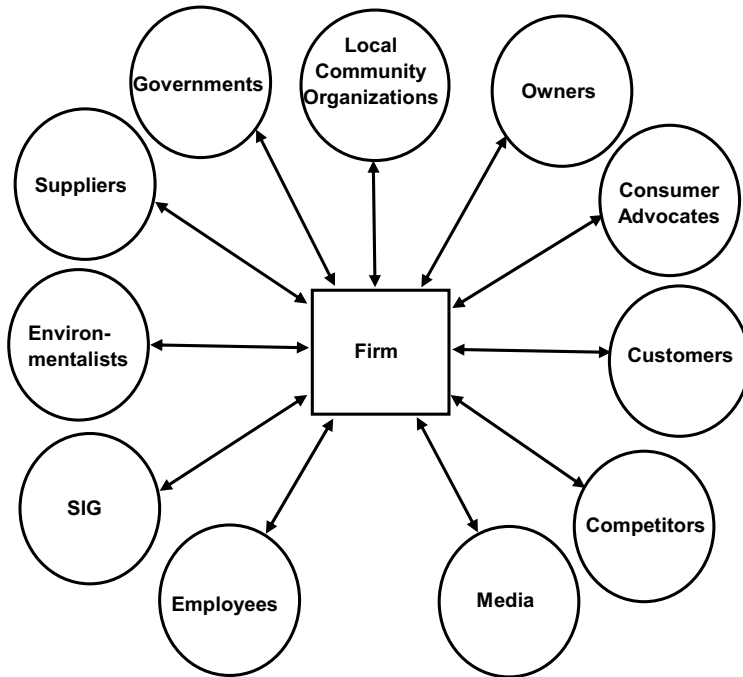
While recognizing my indebtedness to many others in the stakeholder community at large, in my own theory development, I am particularly grateful for the thoughts and works of Freeman. In an attempt to depict the origins of the stakeholder concept

Freeman (1984) refers to the “History of idea” at large and Adam Smith (1759), Berle and Means (1932) and Barnard (1938) specifically. Freeman illustrates the historical evolution of the stakeholder concept accordingly in Figure 4:



**Figure 4 A History of the Stakeholder Concept (Freeman 1984: 32)**

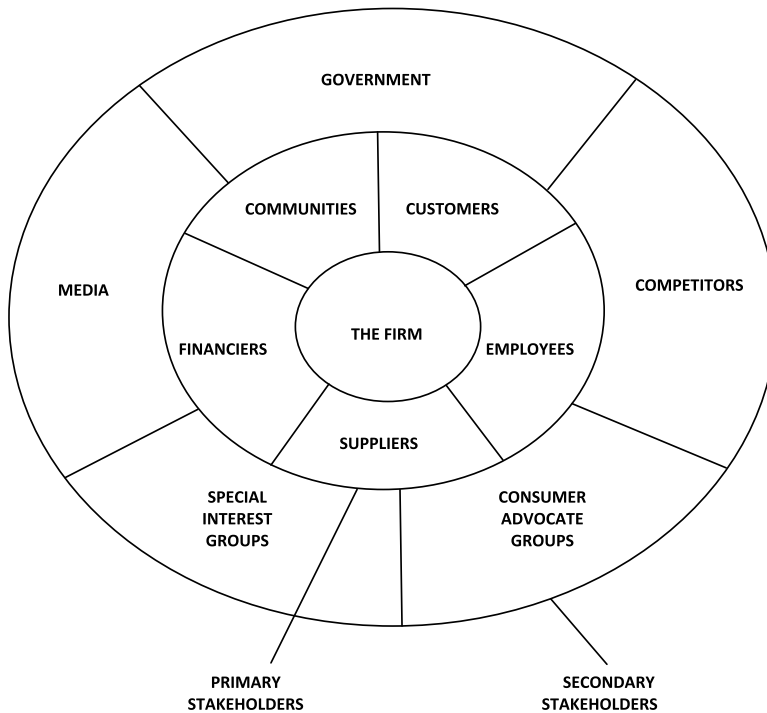
Freeman (1984) further explains the evolution of the stakeholder concept, based on alternative conceptualizations of the firm. He discusses in particular three perspectives: the Production, Managerial and Stakeholder Views of the Firm. His Stakeholder View of the Firm at that time is exemplified in Figure 5. Fassin (2009) and others have made more recent attempts to visualize refined stakeholder models. However, the overview presented by Freeman still serves as a good and visual description of the historical evolution of the stakeholder idea.



**Figure 5 Stakeholder View of the Firm (Freeman 1984: 24)**

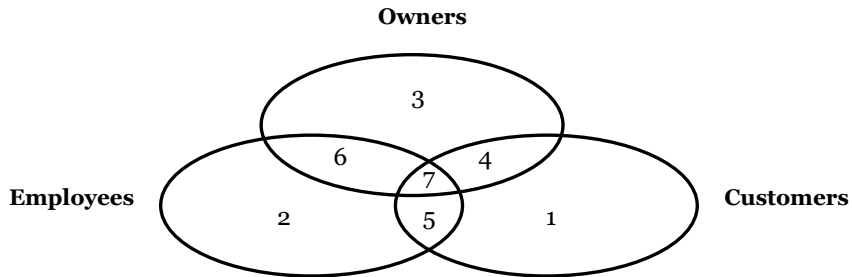
Professor Erik Rhenman introduced the stakeholder concept, or "*intressent modellen*" in Swedish, to the Nordic countries in 1964. He was inspired by the work of Herbert Simon in conjunction with a report on corporate democracy. Although the stakeholder concept is well accepted in English language, it has been somewhat troublesome to find a one-to-one translation into Swedish or Finnish. In Swedish the term "*intressent*" and the description "*someone having an interest*" were the original variants used. In Finnish, the term was initially translated as "*intressentti*" and "*sidosryhmä*". "*Sidosryhmä*" can be translated as "interest group" but also as a "linkage", "bonding" or "binding" group. Despite the different nuances in the translations the conceptual content of the Swedish and Finnish versions have over time become integrated due to the shared body of international research (Näsi, 1995; Freeman, 2008). The bonding or binding idea highlighted by the Finnish translation has in particular been seen by leading stakeholder theorists as an interesting aspect for further exploration. Freeman (2008:1) highlights that the business governance approach of "managing for stakeholders" considers stakeholders as fundamentally "bound together by the jointness of their interests". Freeman, Harrison, Wicks, Parmar and de Colle (2010)

present a prioritized visualization of stakeholders, including primary stakeholders and secondary stakeholders, as depicted in Figure 6. Multiple representations continue to co-exist and be developed according to various understanding and values of the authors. The crucial foci of the discussions is whose conflicting or shared interest should be served and how.



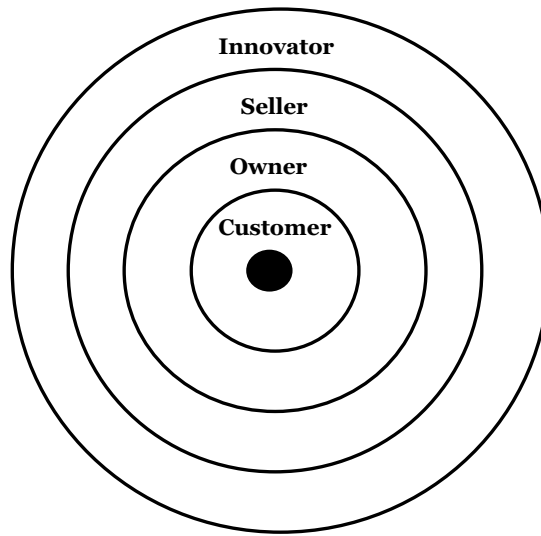
**Figure 6 Creating Value for Stakeholders (Freeman & al: 2010: 24)**

As a complement to the different stakeholder positions outlined, it serves to note that the stakeholder positions may be multiple and mutually overlapping. If we were to further investigate just three stakeholder groups, i.e. customers, employees and owners, already seven different subject positions emerge, as presented in Figure 7.



**Figure 7 Stakeholder subject positions for customers, employees and owners.**

Herein, the subject positions may be labeled as 1) Customers, 2) Employees, 3) Owners, 4) Customer-Owners 5) Employee-Customers 6) Employee-Owners and 7) Employee-Customer-Owners. Different co-operative business models such as those based on customer-ownership (4) or loyalty programs involving employee ownership (6) serve to profit from the aligned interests of the stakeholder groups. Co-operative models that enable employees to also act as customer and owners (7) have the possibility to create highly committed stakeholders for their business. Identifying initiatives that bind together the interest of different stakeholder groups may serve to best to capture the synergies from the different parties interacting and working together. Furthermore, a more holistic approach to, for instance, customers' potential additional roles as owners, sellers and innovators can allow a firm to unlock additional stakeholder potential from its existing relationships. An example of the multidimensional professional stakeholder approach to individuals is exemplified in Figure 8.



**Figure 8 Multidimensional Professional Stakeholder Roles of an Individual**

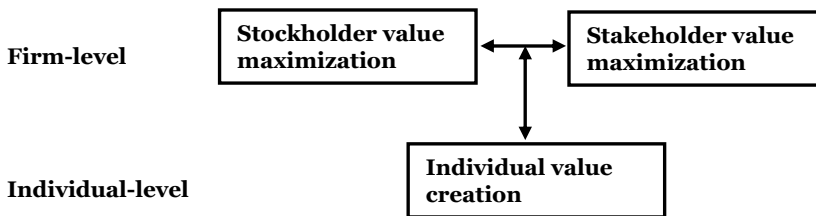
### ***2.1.3. Stakeholder theories of the individual***

“It is now time to take the next logical step. We have as a profession broken open the black box called the **firm**..The next step is to break open the black box called the **individual**..( original emphasis)”

(Jensen, 1994: 14)

A particularly persistent and fundamental discussion within stakeholder literature is that which concerns the stakeholder vs. stockholder debate (Agle et al, 2008). According to Jensen (2002) the debate is between two competing propositions. The first is the value maximization proposition, with its roots in 200 years of economics and finance, and the second is the stakeholder theory, with its roots in sociology, organizational behavior, the politics of special interests and managerial self-interest. The ongoing stakeholder vs. stockholder debate can be seen to emerge from quite different sets of values. The stockholder proponents recognize the value of corporations and corporate decisions according to their effects on stockholders, with varying understanding or recognition of other stakeholder effects. The stakeholder proponents, in turn, recognize from the outset that the value of corporations and corporate decisions are more broadly to be based on their stakeholder effects. Shareholders are a category of stakeholders. As such, these theories are not best positioned as oppositional, but are better seen as complementary (Jones, Wicks and Freeman, 2002;

Freeman, Wicks and Parmar, 2004). However, several varying stakeholder approaches in turn debate the legitimacy and relative importance of different stakeholder concerns and requests (e.g. Mitchell, Agle, Wood, 1997). For the benefit of this dissertation, I have decided to pursue the value creation mechanisms of individuals rather than firms. I have in my theoretical essays pursued in particular the notion of “individual value creation”. This has resulted in an extension of the stakeholder vs. stockholder debate from a ‘firm-level’ to an ‘individual-level’ unit of analysis, as expressed by Figure 9.



**Figure 9 The stockholder, stakeholder and individual value creation debate**

As such, the resultant perspectives are seen not as competitive but rather complementary, providing a deeper understanding of each aspect of value creation. In an attempt to understand the notion “individual value creation” in further depth, I have endeavored to understand more thoroughly its core elements, i.e. the individual, value and creation. This has inspired me to search for a deeper understanding of the individual and her stakeholders. The way we conceptualize ourselves, others and our own behavior form the basic building blocks of our worldview and, by extension, our subsequent reasoning concerning the effects of different forms of organizing. According to Douglass North (1990:17) “All theorizing in the social sciences builds, implicitly or explicitly, upon conceptions of human behavior.” As such many attempts to characterize human nature and characteristics have been made over the years. As a notable summary on the subject, Michael Jensen and William Meckling claim to summarize over 200 years of research and debate in economics, other social sciences and philosophy in their seminal article “The Nature of Man” (Jensen & Meckling, 1994: 3). Man is in their vocabulary used in a non-gender-specific reference to human beings in general. The first draft of the article was written in the early 1970s (Meckling, 1976). Since then it has been included annually in Rochester and Harvard courses on Coordination and Control and the Management of Organizations (Jensen & Meckling, 1994: 1). They explicitly state that the ideas set out in the article serve as the basis of their theory on the “nature of man” and as a critical building block of their subsequent work on agency theory (Jensen, 1994: 11). As such, the article has had a substantial

impact on an entire generation of global managers and on the development of a range of widely disseminated theoretical concepts on managerial behavior, organization theory, agency theory, the corporate objective function, and self-interest to name a few (Jensen 1983, 1994, 2002, 2008; Jensen and Meckling 1976, 1992, 1994; Eisenhardt, 1989).

In the article “The Nature of Man” Jensen and Meckling investigate five alternative models of human behavior that they claim are commonly and, for the most part, implicitly used by scientists, managers, policy makers and citizens. These include the 1) resourceful, evaluative, maximizing model (REMM), 2) the economic (or money maximizing) model, 3) the psychological (or hierarchy of needs) model, 4) the sociological (or social victim) model, and the 5) political (or perfect agent) model. Their article argues that the REMM model best describes the systematically rational part of human behavior. In a subsequent article, Michael Jensen (1994) extends the REMM Model with a complementary pain avoidance model (PAM) that captures the non-rational component of human behavior. He continues to argue that the joint recognition of these models “converts REMM from a purely positive description of human behavior to a normative model that says how humans should behave” (Jensen, 1994:7). The basic foundations of the REMM model are summarized according to the following four postulates:

*Postulate 1: Every individual cares; he or she is an evaluator*

*Postulate 2: Each individual's wants are unlimited*

*Postulate 3: Each individual is a maximizer*

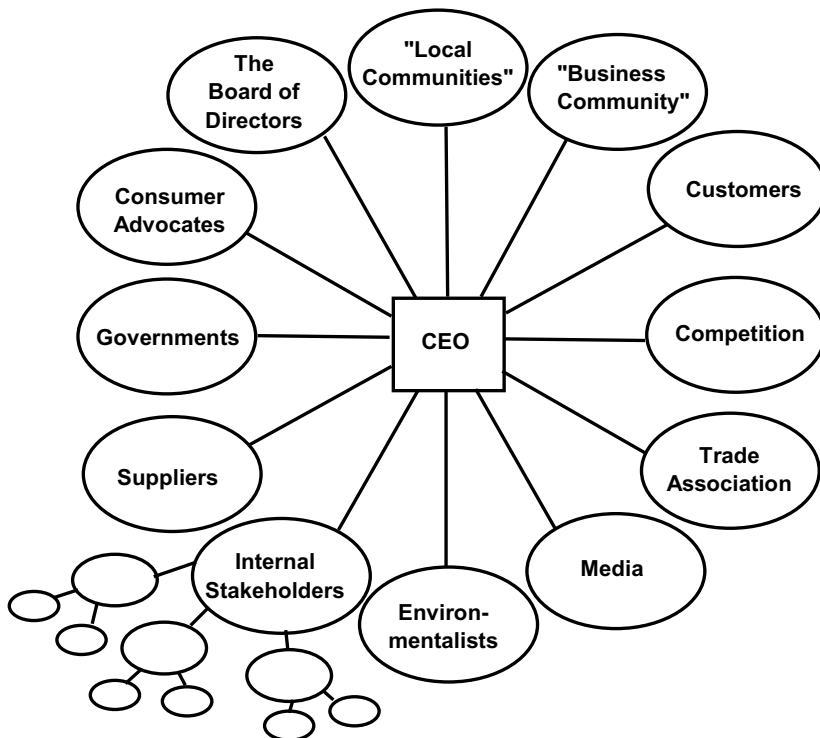
*Postulate 4: The individual is resourceful*

Jensen and Meckling's conception of the individual has been criticized considerably by some researchers, including most notably Brennan (1994), Perrow (1986) and Rocha and Ghoshal (2006). However, in Jensen and Meckling's defense, much of the debate is unavoidably affected by differences in how certain core concepts such as self-interest, altruism and rationality are defined.

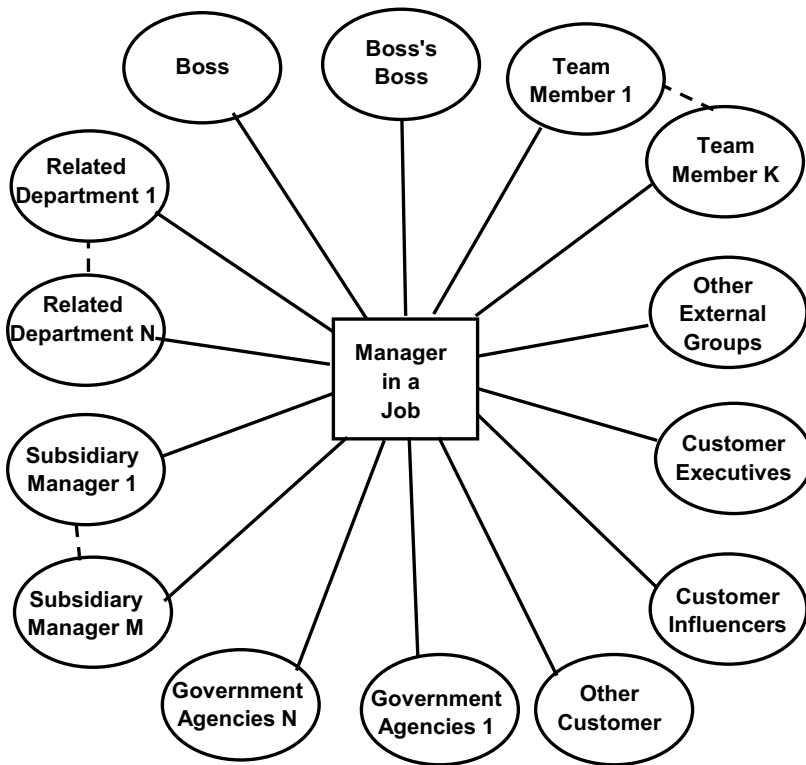
Realizing the complexity involved, I have in this dissertation turned towards a different approach in my attempt to complement Jensen and Meckling's work. My work here does not mirror their efforts to “open up the black box of the individual”, but focuses

instead on what we perceive to be outside of it. Exploring the stakeholder theory of the individual has helped me in these efforts.

In his landmark book “Strategic Management: A stakeholder approach”, Freeman (1984:46) defines a stakeholder as “any group or individual who can affect or is affected by the achievement of an organization’s objectives”. This definition has been crafted remarkably well, and an abundance of research is now based on it. While most of subsequent stakeholder theorizing and research has the firm, corporation or public organization as the focal entity, the definition itself does not prevent us from regarding an individual as a form of organization. Thus opening up the field of research of studying the stakeholder’s of an individual. Freeman (1984) already discusses the professional stakeholders of CEOs, CFOs, marketing managers and financial managers. Figures 10 and 11 provide an illustration of Freeman’s perspective on the stakeholders of a CEO and a manager.

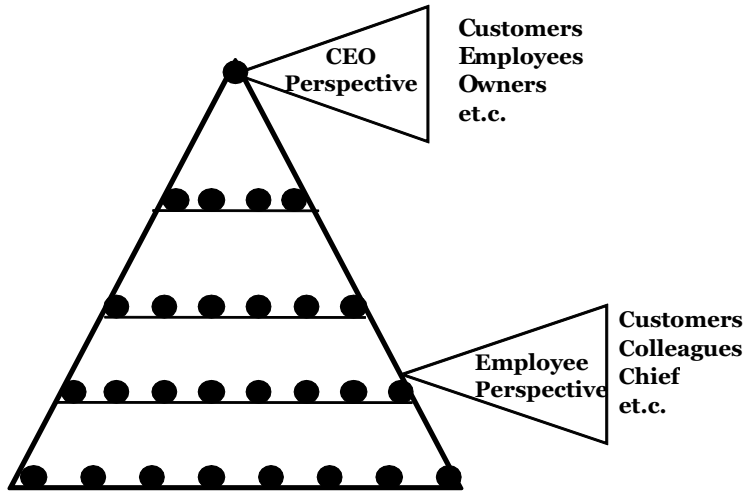


**Figure 10 The Role of the Chief Executive (Freeman 1984: 241)**



**Figure 11 “Internal Stakeholders” in a Managerial Job (Freeman 1984: 218)**

The divergence of key stakeholders for individuals in various positions in a firm is a particularly important subject with regards to organizational alignment towards common goals, development of compensation mechanisms and corporate governance overall. Figure 12 serves to highlight the difference between selected CEO and Employee Stakeholder Perspectives. While the key stakeholders of a CEO may be Customers, Employees, Owners and others, employees are more concerned with their particular set of Customers, Colleagues, Chief (Manager) and others. Consequently the leadership and compensation systems work best when tailored to suit their respective roles and key stakeholders.



**Figure 12 Multiple Organizational Stakeholder Perspectives**

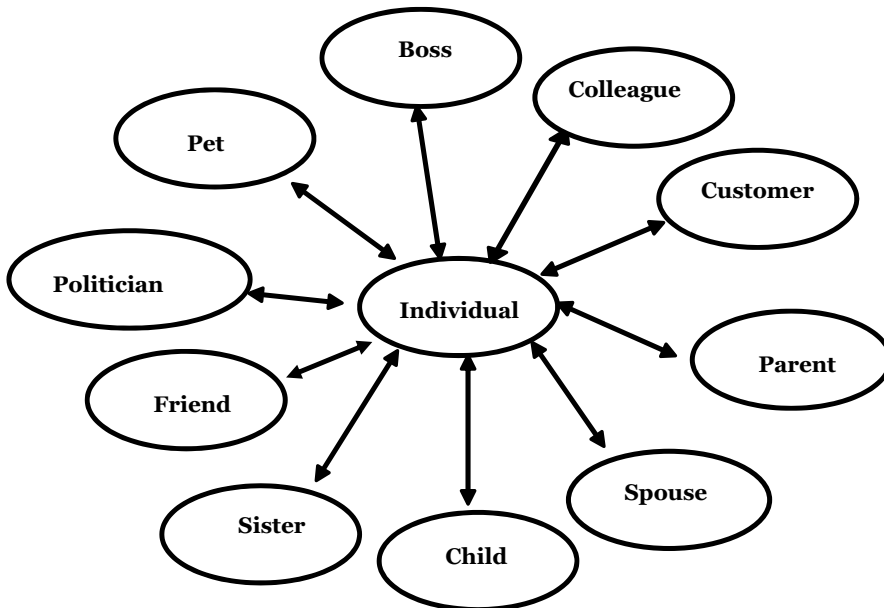
McVea and Freeman (2005) further argue for the importance of understanding the firms stakeholder's on an individual level by exploring a names-and-faces approach to stakeholder management. Venkataraman and others have in turn highlighted the role of the entrepreneur in stakeholder value creation (Venkataraman, 2001; Mitchell, 2002). Nevertheless, a stakeholder theory of the individual, where the individual is the focal entity and the full scope of stakeholders of an individual are recognized beyond mere professional ones, remains an undeveloped topic within the current body of stakeholder literature.

In his discussion of the integration thesis, however, Freeman leads us in the proper direction by emphasizing the importance of understanding human beings. In his words (2008:163)

“An implicit assumption here needs to be made explicit, and that is: it doesn't make any sense to talk about business or ethics without talking about human beings. We need to make this explicit because there is a dangerous counterrevolution going on in business schools. Much of the theory that we teach in business schools is based on partial theories of human beings which are often derived from the separation fallacy (such as agency theory). There are not theories of whole, fully integrated human beings, with names, faces, families, and pasts, i.e. theories about actual business people. The integration thesis implies integrating business and ethics, around ideas of what a human being is and can be.”

The theoretical essay in my dissertation is focuses in particular on developing in the stakeholder theory of the individual in an effort to better understand individual value creation. In terms of billionaire wealth the stakeholder theory of the individual

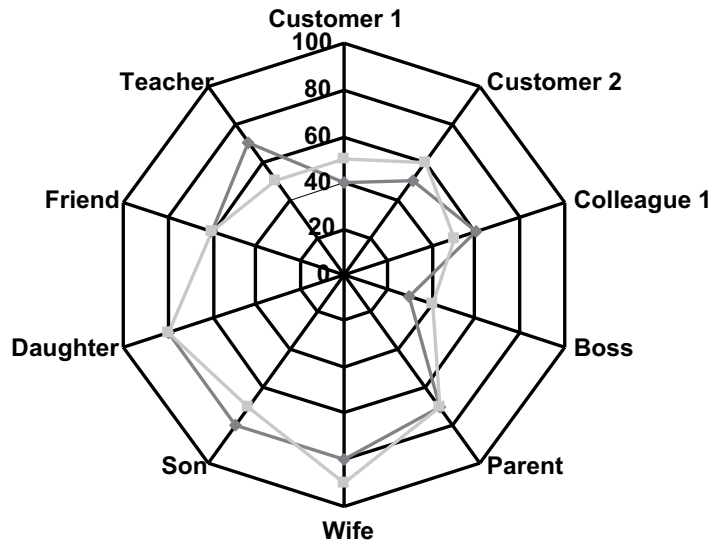
highlights the key sources of value, i.e. professional, personal, private, public and ultimately also planetary stakeholders. From the perspective of the individual billionaire, it underscores that billionaire wealth may be affected by a number of stakeholders outside the professional realm. Even though Forbes Magazine categorizes the majority of the billionaires as self-made, and could hence be approached as a unique category of entrepreneurs, it does not give a sufficient framework for understanding the sources of wealth for the billionaires. Some of the billionaires have inherited their wealth and are as such affected by their parents. Others fortunes are considerably affected by marriage or divorce. Furthermore, some are highly affected by the political system or individual politicians in their countries. In order to obtain an enhanced understanding these sources of wealth and value creation, development of the stakeholder theorizing of the individual was called for. In the following, Figure 13 illustrates an example of an individual's collection of stakeholders, involving a range of different categories of stakeholders beyond purely professional relationships.



**Figure 13** An example of the stakeholders of an individual

Agency theory delineates a perspective of man that focuses on the bilateral principal-agent relationship, which could in its simplicity be comparable to the production view of the firm. The stakeholder theory of the individual in turn recognizes the importance of managing and caring for a multitude of relationships throughout different areas of

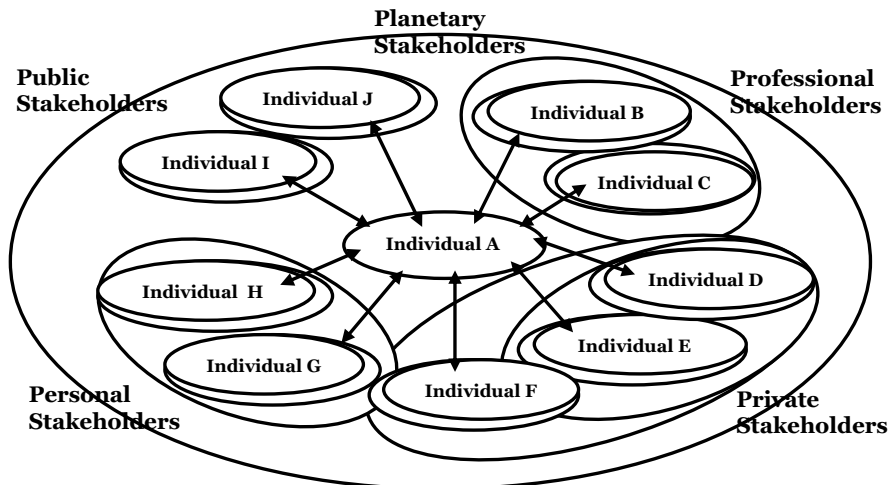
one's life. Figure 14 provides an example of the use of a radar chart for quantitatively assessing and summarizing selected aspects of one's key stakeholder relationships. Obviously, it represents only one tool among others, but a deeper understanding and development of one's key stakeholder relationships can be both a lifelong challenge and a real source of inspiration.



**Figure 14 Example of a Stakeholder Satisfaction Radar Chart**

Overall, in order to appreciate the institutional subtleties of the individual stakeholder theory discussed herein, it serves further to note that, in each country and situation we encounter institutionalized beliefs of what it means to act as an owner, employee, customer, family member, friend or a citizen. As a rule, the role of an employee, customer, entrepreneur, owner or any other stakeholder in a specific country or organization entails its own cultural norms, traditions, values and rights. Consequently, these roles, opportunities and stakes vary and are contextually bound. Our ability to understand the stakeholder relationships of the individual is unavoidably limited due to the layered nature of these interactions. When I interact with my colleagues, I inescapably encounter my own notions about what it means to be a colleague, a part of academia and ultimately a human being. This layered interaction with one's stakeholders, whether are in groups, subgroups or as individuals, has been further

illustrated in Figure 15. Our ability to understand the social context that billionaires live in, along with their attendant forms of freedom and responsibilities, is unavoidably limited. As previously discussed, the value of a person or thing cannot be assessed in isolation. Similarly our notions of stakeholders cannot be separated from our full scope of understanding of the world.



**Figure 15 Institutionalized stakeholder perspective of the individual**

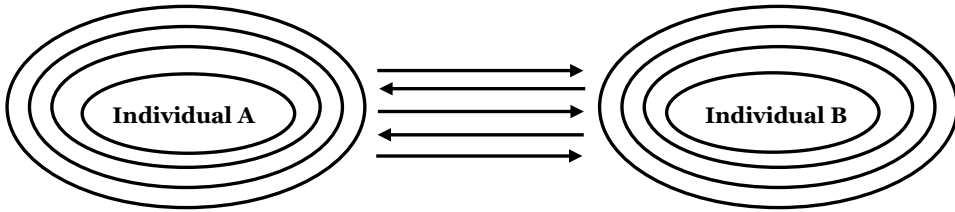
The institutionalized take on the stakeholder theory of the individual includes not only the effects of the contemporary stakeholder but also the historical ones that have created the institutional environment in which individuals dwell and its beliefs, norms, language and traditions. In Figure 15 the interaction of the stakeholders with each other has been excluded. However, these are an integrated and essential part of stakeholder interaction as well. Furthermore, the grouping of different stakeholders based on alliterative frameworks is obviously not exhaustive and serves only as one categorization of our stakeholder relationships beyond the professional realm

In essence, the stakeholder theory of the individual and its visual representations serve to complement Maslow's (1943) "hierarchy of needs" by presenting a perspective that I refer to as a "network of responsibility". As individuals, our very existence and needs are highly interdependent. People who are starving may have limited opportunity to take responsibility for others when all their efforts are directed towards their own survival. However, as our basic needs are met, more and more of our capacity is freed up for considering also the well-being of others. This care for others may take a

multitude of different forms. For instance, as parents we may take care of our children, as children we may take care of our parents, as friends we may take care of each other, and as fellow human beings, we may take care of life overall in countless ways. Once our basic needs are met the size and the direction of our “network of responsibility” is and should be in many ways free for us to develop and grow. On this note, in respect for the freedom of the individual, it serves to realize that no external power should dictate our preferred forms of value creation and “networks of responsibility”. Our ability and freedom to choose and re-create our roles as citizens, consumers, employees, investors, family members et.c. remain critical for a healthy competition and development of states, companies and our social arrangements overall.

Furthermore, it serves to note that within stakeholder literature, different means of affecting or being affected by one’s stakeholders have been identified. The multitude of exchanges may include a number of effects including material, physical, financial, biological, emotional, intellectual, aesthetic, moral or spiritual, as expressed in Figure 16. In order to make a positive difference or create value together, it is important to realize the range of effects we have or may have on each other and the effects of different channels on our exchanges. The importance of stakeholder feed-back and continued improvement of our relationships over time is highlighted by the fact that our intentions in terms of how our actions affect our stakeholders are unavoidably different from how they are in reality affected. From the perspective of individual growth and development, the stakeholder theory of the individual provides a particularly fruitful and holistic framework for understanding ourselves each other and our joint potential. The value of the stakeholder perspective in recognizing the breath of different means of affecting or being affected by is essential for a holistic understanding and development of human beings. The topic of human development and growth is a subject all too important to leave to the psychologist, sociologist or economist alone.

In terms of understanding our forms of affecting and being affected by in further depth, it is essential to acknowledge that any focus on just one kind of exchange regardless of its type, over a limited period of time, without a regard to the whole of exchanges will always give a distorted picture of reality and our forms of value creation. In terms of scientific inquiry or practical application the essential question become of how to navigate and manage while recognizing the limits of our vision. This process of adaption in a world of imperfect knowledge will unavoidable have to be left as an open question for each individual to address in his or her unique settings of life.



**Figure 16 Forms of exchanges between stakeholders**

As with any attempt to develop our understanding further, it is essential to recognize some of the most apparent limitations of the stakeholder theorizing of the individual. Firstly, individuals are engaged in a multitude of material as well as immaterial exchange relationships, well beyond one's apparent stakeholder relationships. Our forms of exchange are not only with other humans and nature but with the entire world around us. Second, the conceptual representation of individuals through stakeholder maps is in itself obviously limited to a static representation in time and the context in which it is drawn. Third, our conscious understandings of the full set of our stakeholder relationships, how they affect us and how we affect them, and how they change over time, are naturally limited. Our observations of our fellow human beings are unavoidably affected by our own conceptions and misconceptions of the world. Finally, it is important to note that the stakeholder theory of the individual does not attempt to create a new theory of the individual. The stakeholder theory of the individual does not attempt to provide a descriptive answer to the question of 'What is an individual?'. It is instead focused on the questions concerning 'With whom do we interact?', 'How?' and 'Why?'. This is done not with a descriptive purpose but with the pragmatic purpose of bringing positive change.

Further, in order to address the sceptics of the stakeholder theory of the individual a few additional points need to be made. In my dissertation process I have encountered the question: How can there be a stakeholder theory of the individual if stakeholder theory was originally designed to address a unit of analysis of firms and other organizations - not individuals? In my mind the question is flawed for multiple reasons. First, the reason for the innovation of a theory or perspective cannot limit its application should a good and pragmatic use be found elsewhere. In the history of innovations, there are countless examples of innovations assuming different uses than those that were originally intended. Second, as discussed prior, the father of

stakeholder theory, R. Edward Freeman (1984) outlines the different stakeholders of the CEO and manager already in his initial book on stakeholder theory. The next step towards pursuing the other stakeholder roles of an individual is therefore but a natural extension. Third, instead of contesting whether the stakeholder theory of the individual is possible, it serves to recognize the fact that it is already in wide general use. For instance, my son's first grade school class has drawn maps of the most important people in their life that can be directly comparable to simple stakeholder maps. If such stakeholder maps are already drawn in practice, couldn't our theoretical argumentation also be developed to catch up what is already in use? Lastly, we must consider what is the value of disregarding the benefits from a more holistic approach to individuals?

On the whole, critique serves nevertheless to challenge the importance of understanding other human beings and their stakeholders. Does not the stakeholder theory of the individual provide a highly self-serving outlook on theorizing? Shouldn't the focal unit of analysis preferably be a shared experience such as a firm, a situation or life as a whole? It is true that stakeholder theorizing of the individual places the individual as the focal unit of analysis. Be that as it may, it doesn't mean that the analysis results in a self-centered view of the individual, without regard for stakeholders. The very idea of the stakeholder theory of the individual is to identify and include others. The stakeholder theory of the individual does not in any way object to the pursuit of larger units of analysis. In fact, its very existence is indebted to the work done in this way. It is rather developed to complement other levels of analysis. Together the different units of analysis provide complementary views on the complexity of our existence.

Finally, to determine a definite set of characteristics and relationships for an individual is undoubtedly a difficult, if not impossible task. In Finnish the word for human is "*ihminen*". The ending "*-nen*" in the Finnish language is a diminutive suffix familiarly used to denote something small or little, such as "*lintunen*", small bird, or "*lapsukainen*", little child. The "*ihm-*" stem of the word "*ihminen*" has a similar root as the word "*ihme*", or miracle. Hence, the word for a human being in Finnish can loosely be translated as "little miracle". In many ways, our lives as human beings are small miracles. Trying to define the nature, character or essence of what it is to be human all too easily leads towards failure. Our existence is just too creative and rich, to be captured by words and conceptual definitions at any one time. However, we can always try to understand each other and our relationships better, and consequently, our forms

of value creation. In the following, we shall further explore the underlying rationale of individual behavior for the improvement of our existence.

#### **2.1.4. Stakeholder-interest versus self-interest**

The focus of stakeholder theory is ultimately articulated in two core questions, i.e. “What is the purpose of the firm?” and “What responsibility does management have to stakeholders?” (Freeman, 1994; Freeman, Wicks and Parmar, 2004) The purpose of the firm, or the so-called corporate objective has been a focus of substantial debate (e.g. Jensen, 2002; Phillips et al., 2003; Smith, 2003; Sundaram, Inkpen, 2004; Freeman et al., 2004) from which alternative management goals have been derived.

Jensen (2002) notably proposes a model for “enlightened value maximization”, which utilizes much of the structure of stakeholder theory while accepting maximization of the long-run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders. Jensen (2002:236) defines what he calls the “Value Maximization Proposition” accordingly:

“...in implementing organizational change, managers must have a criterion for deciding what is better, and better should be measured by the increase in long-term market value of the firm”.

According to Jensen the answers to how managers should and do define better vs. worse have important implication for the welfare of society’s habitants. He continues to voice what he considers as the need for a single dimensional score for measuring performance. Sundram and Inkpen (2004) further conclude that the goal of “maximizing shareholder value” should be the sole objective function governing corporations. Freeman et al. (2004), however, provide a systematic criticism of this approach highlighting the importance of a more comprehensive understanding of value creation and the effects a firm has on its stakeholders. In his later work, Jensen (2008:168) restates that an appropriate rule for decision-making would be the maximization of the total value of all financial claims on the corporation in the long run. My work on this dissertation has led me to with Jensen’s treatise on the importance of individuals developing their capabilities of distinguishing better from worse. However, I cannot subscribe to any one fixed answer. I personally believe that the ability to distinguish better from worse is an open question of the kind postulated by G.E Moore (1903). As such, I can neither agree with Jensen’s initial call for a single dimensional measure for keeping score, nor with his later view of maximizing the long-

run total value of all financial claims on the corporation. For me it is essential to acknowledge a more comprehensive set of values beyond mere financial ones.

From the perspective of the stakeholder theory of the individual, the two core questions could be further restated as “What is the purpose of my life?” and “What responsibility do I have to my stakeholders?”. By extension, one could also complement these with a third open question: “How to improve our lives?” The notion of self-interest itself has been a core focus of multiple debates, both on an individual and societal level, since the origin of economics. Much confusion and misinterpretation exists concerning the key motivators of human action and the best institutional environment for supporting it. Nevertheless, according to Ronald Coase (1976:1) “Self-interest is certainly, in Adam Smith’s view, a powerful motive in human behavior, but it is by no means the only motive”. Adam Smith’s (1790:1) opening words in his “Theory of Moral Sentiments” explain more:

“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it”.

I would consequently argue that individuals are in essence pursuing something that could be better referred to as *stakeholder-interest* than *self-interest*. Furthermore, as a response to Jensen’s Value Maximization Proposition on an individual level and building on it further, I believe that *in implementing change, individuals are served with a means for choosing what is better, and better should be ultimately chosen based on the increase in the quality of life for themselves AND their stakeholders over time*. This dissertation process has caused me to grow wary of any one definition of better also on an individual level. I would rather argue for the value of stakeholder feedback and a deeper understanding of individual value creation over time.

### **2.1.5. Stakeholder values and wealth**

Throughout the works of Freeman the centrality and plurality of values is emphasized (Freeman, 1984; Freeman 1994; Freeman and Phillips, 2002; Freeman, Wicks and Parmar 2004). According to Freeman, Wicks & Parmar (2004:364): “Stakeholder theory begins with the assumptions that values are necessarily and explicitly a part of doing business.”

In Freeman’s words (1984:96): “Values come in many flavors, sizes and shapes. There are aesthetic values about what things are beautiful or what is good art. There are social

values about what kinds of institutions are good and just. There are religious values about the worthiness of beliefs in god. There are moral values of the goodness or rightness of certain kinds of actions which affect our fellow persons. There are values about all kinds of things such as what makes a good apple, or what makes a strategic plan a good strategic plan, or what makes a managerial decision a good one, etc.”

Freeman (1984:96-97) distinguishes two kinds of values: intrinsic and instrumental. According to him, things that are intrinsically valuable are good in and of themselves. They are to be pursued of their own account and worth. Freeman describes that intrinsic values represent the ‘bottom line’ of life and its pursuits. Instrumental values in turn are seen as a means to intrinsic values. Instrumental value is placed upon things that lead to the attainment of things, or states of mind that are intrinsically valuable.

Freeman (1984:97) also elaborates another useful distinction between the values of an individual and those of the organization. He points out how culture, tradition, purpose and the personality of leaders all help to shape the values of an organization. He further recognizes the differences between the values of the individuals and the organization. The values of an organization tend to reflect the organization’s history, are slower to change and represent an amalgamation of the values of many individuals. In this dissertation, I have come to regard this third set of values of organizations as institutional values. In sum, these three kinds of values include *intrinsic values*, i.e. values in themselves, *instrumental values*, i.e. values for the achievement of other values and lastly *institutional values*, i.e. values held by oneself and others as the result of the institutional environment.

The stakeholder perspective on value shows the importance of realizing not only what is of value, but also who is creating value for whom. Based on our earlier definition of value as change, stakeholder value can be seen as stakeholder change. Moreover, stakeholder management can be seen as the attempt to create a positive change for oneself and one’s stakeholders.

Based on the notion of value as change, a key question emerges: How do we measure change? Change on an individual level can be material, financial, physical, emotional, intellectual, aesthetic, moral, spiritual, etc. Each individual reacts to change differently. The measurement of change is particularly relevant for a key dilemma I have come to term “*the stakeholder challenge*”, i.e. the fact that people are limited in their care and understanding of the causes and consequences of their actions affecting themselves and

others. Devising more effective means to understand the full scope of the effects of our actions is essential for a more responsible development of our lives.

In their classic book “Economics”, Samuelson and Nordhaus (2010:748) define wealth as: “*The net value of tangible and financial items owned by a nation or person at a point in time. It equals all assets less all liabilities*”. They describe an asset in turn (2010: 729) as: “*A physical property or intangible right that has economic value. Important examples are plant, equipment, land, patents, copyrights, and financial instruments such as money or bonds*”. In this dissertation, I have come to categorize the wealth of individuals as a combination of our material, immaterial and existential possessions. While the forthcoming essays share some additional insights into the topic, much additional work is called for in order to better understand the different sources of individual wealth and stakeholder rights and responsibilities, as well as their dynamics in society.

### **2.1.6. Summary of value theorizing**

"All my possessions for a moment of time."

- alleged final words of Queen Elizabeth I, 1603

Ultimately, the value of our possessions is not determined by what we have but what we are able to do with them, i.e. the change they enable. Our beliefs are at the core of our ability to change our lives for the better. Time is our ultimate constraint: hence, what we do with our time is by necessity a core issue in any form of axiological reasoning which forces us to choose between alternative courses of action.

As a complement to the theoretical definition of ‘value as change’, one could interpret human values in a practical sense as that which people talk or do something about, i.e. that which we desire to change somehow. Von Mises (1996) names praxeology (gr. praxis, action, and logos, talk, speech) as the science of human action. A part of this science is known as *catallactics* (gr. to exchange) or the science of exchange. While my value theorizing shares many of the ideas brought forth within these sciences, my axiological reasoning has a distinct approach of its own. The core element behind my reasoning is based on the notion of value. In sum, I am keenly concerned with what change or exchange that our theorizing is able or unable to bring forth. Furthermore, I find the role of our beliefs and disbeliefs on our consequent behavior as an area of particular interest. Lastly, my reasoning remains primarily interested in the value

creation of the individual, and only thereafter in the functioning of other levels of abstraction, such as firms or markets at large.

Overall, as a result of my theoretical exploration I have chosen to specifically bring forth and develop in my dissertation the stakeholder idea as a core concept from contemporary business ethics literature. The key benefit and value of the stakeholder idea is that it focuses our attention on the people and forms of life affecting and being affected by us. While much theorizing in the field of economics in particular has been concerned with the universal notions of self-interest and altruism, the notion of stakeholder-interest provides us a more nuanced and balanced foundation for understanding different forms of individual value creation. Figure 17 presents a general outline the role of stakeholder-interest in a continuum of interests from self-interest to altruism. However, it serves to note that various interpretations of the notions of self-interest, enlightened self-interest, stakeholder-interest and different forms of altruism continue to co-exist in extant literature.



**Figure 17 Self-interest, Stakeholder-interest and Altruism**

In their consideration of the stockholder vs. stakeholder debate, Freeman, Wicks and Parmar (2004:368) argue: “The shareholder ideologists want us to believe that economic freedom, and therefore political freedom, are threatened by stakeholder theory. Nothing could be further from the truth...Value creation and trade have to go together. One is not good without the other.” Freeman and Phillips (2002) further expose the *managerial* and *libertarian roots* of stakeholder theory. The stakeholder theory of the individual developed in this dissertation and its essays would be most suitably described as *individual-centric*, i.e. enhancing the role, value and responsibilities of individuals. I do not construe this to mean that the theory is primarily egoistic and self-serving, but rather individual-centric based on a deeper understanding of the interconnected nature of human existence and exchange. In terms of freedom the stakeholder theory of the individual herein presented further

emphasizes the role and importance of *individual freedom*, beyond systemic representation and measures of economic and political freedom.

In sum, the theoretical introduction has so far explored our understanding of value, stakeholder theory and individuals. A core element in the pursuit to understand individual value creation is to understand the topic of freedom in further detail, along with the constraints that provide the basis for our different forms of existence and creation. In the following this dissertation will further explore different forms of theorizing on freedom.

## **2.2. Theories of Freedom**

### **2.2.1. Economic freedom**

“Adam Smith’s key insight was that both parties to an exchange can benefit and that, so **as long as cooperation is strictly voluntary**, no exchange will take place unless both parties do benefit. No external force, no coercion, no violation of freedom is necessary to produce cooperation among individuals all of whom can benefit.”

(Milton Friedman, 1981:1)

Ever since, the time of Adam Smith, if not before, economists and economic historians have argued that the freedom to choose and supply resources, compete, trade, and secure property rights are the central ingredients for economic progress (de Haan and Sturm, 2000:217). The topic of economic freedom has been a fundamental topic of free market proponents the world over. The main threats to voluntary exchange, according to the market liberalists of the 20<sup>th</sup> century, were socialism and excessive government involvement. As a consequence, a multitude of different policies, institutions, research programs and measures have been devised in order to promote economic freedom.

Market liberalists believe that the development of free exchange between individuals is a guarantee of prosperity. However, not all individual value creating activities are beneficial for society as a whole. Consequently, there is a long-standing debate regarding the role of rent-seeking or profit-seeking behavior in society (Krueger 1974; Lenway, Morck & Yeung, 1996; Murphy, Shleifer & Vishny, 1993; Morck & Yeung, 2004; Pasour 1983; Posner, 1975; Tullock 1967, 1980). The discussion has its origins in Adam Smith’s division of incomes into profit, wage and rent. Rent-seeking in its general sense implies the extraction of uncompensated value by manipulating the economic and legal environment. Profit-seeking on the other hand refers to the action

of entities that seek to extract value by engaging in trade and production. The discussion has been further complemented by Baumol's theory of productive and unproductive entrepreneurship (Baumol, 1990; Sobel, Clark & Lee, 2007; Sobel, 2008). In the forthcoming essays in this dissertation the reader is invited to consider the full scope of stakeholder effects that a form of governmental policy or entrepreneurial activity promotes. Secure property rights have been a corner stone of the economic freedom debate. In terms of devising appropriate governmental policies, this dissertation will further underscore the value of understanding the full scope of stakeholder effects, and consequently, the division of appropriate stakeholder rights and responsibilities, in order to determine better programs for economic and societal growth.

On the whole, it is apparent that economic freedom is an integral part of other forms of freedom. In his influential book "Capitalism and Freedom" (2002), Milton Friedman argues that economic freedom is a necessary condition, but is not sufficient for political freedom. Political freedom can in turn be an important guarantee of economic freedom and a key means to avoid different forms of unproductive entrepreneurship between economic and political elites. Inefficient political systems and social environments lead to the misallocation of resources and loss of economic prosperity. Overall, the topic of freedom is a multifaceted one. A multitude of related freedoms have been identified in conjunction with such civil liberties as freedom of assembly, freedom of movement, freedom of religion, freedom of speech, freedom of press and freedom of thought.

The plethora of different perspectives on economic freedom and freedom in general create a veritable challenge for researchers, politicians and citizens at large to agree and understand each other in debates on the matter. Furthermore, the different definitions of freedom inevitably contain value judgments regarding the kinds of freedoms to secure for whom. In the following, we will discuss the alternatives for measuring economic freedom that have been developed to date.

### ***2.2.2. Measuring economic freedom***

An ongoing debate continues to this day on alternative definitions of economic freedom and how to measure it. Some of the most influential institutions proposing alternative measures on economic freedom include the Fraser Institute, the Heritage Foundation/ The Wall Street Journal and Freedom House. Each has a different emphasis on the vital

components, like property rights, individual and collective freedom and the distinction between economic freedom and other forms of freedom (de Haan and Sturm, 2000). The two most developed indices, to date, include the Fraser Institute's Economic Freedom of the World (EFW) index and the Heritage Foundation/ Wall Street Journal Index of Economic Freedom (IEF). However, it may be noted that other attempts exist as well (Spindler and Still, 1991; Scully and Slottje, 1991). When comparing the two measures, the Fraser (EFW) measures are dominated by outcome variables, whereas the Heritage (IEF) measures are primarily policy variables that governments can control (Heckelman, 2000). The IEF measure is the preferred choice in the quantitative essay of this dissertation due to its pragmatic linkage to actionable policy variables.

The Heritage Foundation measure of economic freedom is a composite index of ten measures of economic freedoms including Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption and Labor Freedom. It is meant to measure the overall economic freedom existing in a certain country. Higher levels of economic freedom increase the profitability for actors to engage in productive forms of entrepreneurship. In contrast, lower levels of economic freedom increase the profitability for actors to engage in unproductive forms of entrepreneurship. The findings of the previous single country studies on high-net-worth individuals by Siegfried and others indicate the somewhat surprising degree of high-net-worth individuals in sectors judged as competitive (Siegfried and Roberts, 1991; Blitz and Siegfried, 1992; Siegfried and Round, 1994; Hazeldine and Siegfried, 1997).

It is particularly interesting that large individual wealth has been amassed in industries in which extraordinary earnings should attract new entrants and erode margins. One would expect that individuals that attain extraordinary wealth would be rapidly imitated. Nevertheless, vast individual fortunes continue to exist even in competitive industries. The studies identify possible explanations: e.g. considerable ex-ante risk and uncertainty, innovations, returns to business skill and strategic resources and market disequilibria. As such, industry competitiveness is not seen to hinder the amassment of large individual wealth. On the contrary, their findings indicate the existence of unexpectedly high degrees of high individual wealth in these industries. Consequently, based on these studies one could expect that economic freedom as a broader measure of competitiveness in a nation could also be expected to yield a positive relationship with billionaire wealth.

In support of this theory, Neumayer's (2004) cross-country study on billionaires using Forbes data initially indicates such a positive relationship, i.e. the higher the degree of economic freedom the higher billionaire wealth in a country. Nevertheless, as Neumayer's (2004) study indicates the relationship is not necessarily consistent on all measures of economic freedom. His findings that neither fiscal burden, nor greater extent of government intervention, nor a greater extent of governmental interference with prices and wages have a negative effect on the incidence of great wealth do not indicate a straight forward positive relationship between economic freedom and billionaire wealth. On the other hand his findings on private property, openness in trade and overall wealth in a country support such a positive relationship. As such, it is to expect that the underlying fundamentals for extreme value creation may be multifaceted and complex. Nevertheless, based on the previous studies as a whole it is expected that productive forms of entrepreneurship will prevail and a positive relationship exists between economic freedom and billionaire wealth.

However, whether the economic freedom measures are the best solutions available for economic and societal progress is nevertheless open for debate. In the following, we will further discuss the topic of individual freedom as a complementary orientation for economic and social policy development.

### **2.2.3. Individual freedom**

"If the first attempt to create a world of free men has failed, we must try again. The guiding principle that a policy of freedom for the individual is the only truly progressive policy remains as true today as it was in the nineteenth century."

(Hayek, *The Road to Serfdom*, 2007: 238)

The freedom of individuals is as essential today in the 21<sup>st</sup> century as it was in the time of Hayek. In their respective eras, Hayek, von Mises, Friedman and others each warned about the dangers of tyranny resulting from excessive government control and centralized economic planning. However, while the benefits from *free markets* have been widely recognized the world over, Hayek makes a reference to something even more fundamental, i.e. *the freedom for the individual*. What is then individual freedom?

Paraphrasing Freeman on the definition of stakeholder theory, I would argue that there is no one definition of individual freedom. Individual freedom is for each of us to define and pursue. Our unique situations and understandings of the world will give very

different meanings and significance to alternative forms of individual freedom. In the name of individual freedom people may chose to promote individual action and policies that deviate from those of pure market liberalists in order to address other forms of domination all around us in business, academia, the media, our culture and beyond.

However, concerning the fundamental threats to the freedom of the individual, I would based on the insights of this dissertation first and foremost turn in towards ourselves and address the threats that are posed upon us from within, i.e. our erroneous beliefs about ourselves, other people and the world around us. Our false beliefs, superstitions, fixed principles and religions all too often prohibit us from seeing the full scope of the stakeholder effects resulting from our actions. A continuous transformation or 'creative destruction' of our beliefs is essential for our own as well as societal progress at large. Ultimately, in order to achieve individual freedom there is no substitute for taking responsibility for it in all of its forms. The focus on policies on adhering to a particular form and definition of freedom, such as the forms of economic freedom promoted by the conservative Heritage Foundation and the like, should be judged with appropriate care, based on the ramifications for the affected stakeholders. Furthermore, additional types of measures must be developed in order to complement the existing economic and social models with individual measures. Lastly, in order to enhance our understanding of the notion of freedom itself, it would also be worthwhile to carry out further studies on what people actually perceive as the key constraints to their freedom and why.

To continue to secure and develop the freedom of the individual, the threats to our freedom and well-being need to be understood in depth and with adequate sensitivity for each unique case. The means by which the freedom of individuals is restricted are multifaceted and pervasive. Furthermore, the forms of oppression, violence and coercion against individuals come in many forms, directly, indirectly, within or beyond our conscious understanding.

Overall, this dissertation is founded on a fundamental belief that human beings affect and are affected by each other – in various ways and forms. We exist in various forms of exchanges. We are bound to each other and we are bound to exchange. Our exchange is continuous, whether we like it or not. We are never free from the consequences of our existence and actions. We exchange eye contacts. We exchange feelings. Exchange is not purely a rational process or something we choose to do. Only a part of our exchange

is rational and involves free choice. Exchange does not only happen in cases where both parties benefit, as exchange can also be disadvantageous and hurtful.

While economic, political and social freedom may enable us to more freely choose between alternatives in the economic, political and social spheres, individual freedom provides the ultimate foundation for our forms of value creation. However, this does not occur without taking responsibility for its existence. Taking responsibility is a precondition for more sophisticated forms of freedom. Only through responsible actions are we able to enter into sustainable exchange relationships with others. Taking responsibility on an individual level involves a continuous exchange of one form of freedom for another.

### **2.3. Summary of the theoretical background**

The theoretical overview cannot be anything but a limited attempt at summarizing an evolving work in progress. The underlying choice in this study to focus on the topics of value and freedom ultimately reflect my personal belief about the central nature of developing our understanding, discourse and language with regards to these chosen topics. The concepts of values and freedom are reoccurring topics of discussion in both science and society. Unexamined ideological positions with regards to both of these topics may have unwanted and even destructive consequences on a multitude of different levels.

On an individual level the topics of values and freedom invite us to ask: “What is of value for me?”, “What kind of values am I willing to pursue?”, “What is freedom for me?”, “What kind of freedom am I willing to pursue?” and “What effects does my orientations have on my stakeholders?” The chosen dual focus on values and freedom makes them complementary and highlights the unavoidable and inherent tensions in our orientations. As discussed prior, we are never free from the consequences of our existence and actions. As such, the very nature of our freedom is dependent on the values we hold and choose to protect.

The theoretical review made mention of the so-called “*the stakeholder challenge*”, i.e. our limited *care* and *understanding* of the causes and consequences of our actions for ourselves and others. In order to mitigate this challenge at least to some miniscule degree, the dissertation attempts to further deepen our understanding of ourselves, others and our attending forms of value creation. In the following, the theoretical

background as presented is substantiated with a review of the chosen method and the pragmatist approach to the dissertation.

### 3 METHOD

The aim of this chapter is to present the pragmatist approach, the research process and the data and its analysis. The pragmatist alternative was chosen due to its fundamental and natural connection to stakeholder theorizing. The research process is exemplified with the use of stakeholder maps describing the different phases of the process. Finally, the associated data and its analysis are discussed.

#### 3.1. The pragmatist alternative

From the beginning of my dissertation research, I have been careful with regards to different forms and formulations of methods. The definitions of *inductive*, *deductive* and *abductive methods* all belong to a family of methods that can be termed *reductive methods*. Representations of these methods are reductions of what really happens in research projects. While the reductions serve to highlight differences in approaches towards theory and data, they fall short of identifying other key influences affecting the research project, not to mention its results and outcomes. Beyond the access to empirical data and theories, a multitude of other influences affect the outcomes of the research project. The access to financiers, the scientific community, colleagues, technological support and social encouragement, i.e. all the related stakeholders play a role in affecting the nature of the research project. During the process of my dissertation I have come to adopt a holistic approach to my research. I have ultimately come to regard my life as my overarching method. The multitude of exchanges that I am engaged with, in my professional, private and personal life both affect and are affected by the research project. As such, it also serves to note that my research project itself does not in this respect have only one outcome, but rather a multitude of outcomes, manifested in a range of different stakeholder exchanges in which I have been a part of along the way.

In an attempt to better understand and classify my own research approach, I have found particular inspiration and guidance from Freeman et.al.'s (2010:70-79) articulation of the pragmatist alternative for conducting research. Their work builds on the 'founders' or 'pioneers' of the philosophical literature on pragmatism, namely Charles Pierce, William James, John Dewey and Richard Rorty, "the new pragmatist", in particular. While most of the dominant analytic philosophy in the twentieth century was worried about 'meaning' and how to express ideas clearly, the pragmatists guide us

back to the key question posed by Socrates: “How should we live?”. Rorty (1979) argues in his seminal work “Philosophy and the Mirror of Nature”, that language as representation does not make any sense. He sees language as a tool, not a representation. Consequently, Rorty argues that the task of the intellectual is to produce social hope and find out how we could live better. In Freeman et.al.’s (2010:71) words:

“The controversial way in which Rorty often explains what he is up to is to claim that we need to replace the idea of “truth” as the goal of inquiry with the goals of “hope” and “freedom”... “Pragmatists like Rorty believe there are only two interesting project for us to engage. The first is ever more useful descriptions and re-descriptions of “self”; the second is ever more useful descriptions and re-descriptions of “community””.

Wicks and Freeman (1998) offer a new approach to research, using pragmatism to reshape it and provide more room for ethics and increase the relevance of research in general. Their approach rejects the privileged status of science. To them, science provides just one more technique for coping with the world. The pragmatists furthermore withhold that there is no one privileged description of events. They reject the positivist beliefs in value-free scientific inquiry, while refusing to surrender to the anti-positivistic extreme of anything goes. The pragmatists avoid drawing sharp distinctions between finding and making, descriptive and prescriptive, and science and non-science. They rather focus on research as a tool, using a wide array of methods both quantitative and qualitative to help us lead better lives in a given setting. Pragmatism further emphasizes the priority of the political, helping to guide conversations towards being manageable and constructive, rather than destabilizing and destructive. According to Wicks and Freeman (1998:129):

“The key question for pragmatists is whether or not information (scientific data, a novel, a treatise on ethics) is useful – useful in the sense of helping people to better cope with the world or create better organizations...It is important to be clear on this point: the pragmatist criterion of value is not a pseudonym for utilitarianism. Rather, it contains a broad injunction that is adaptable to a wide range of value-systems that may differ substantially from utilitarianism. Instead of offering specific and detailed content to the term, the pragmatic value of usefulness simply requires those engaged in research or decision-making to scrutinize the practical relevance of a set of ideas as defined by their purposes and those shared by their community (e.g. within a country, a corporation, a research stream).”

Consequently, the form of pragmatism outlined by Wicks and Freeman (1998) emphasizes the role of *intersubjective agreement* in the conduct of purposeful research. A key concept of this is *equivocality*, i.e. the idea that there are multiple interpretations for phenomena and that there is no one underlying “truth”. A second concept is *enactment*, i.e. the idea that reality is enacted rather than discovered or that people create meaning based on their experiences. The last key concept the pragmatists

highlight is the notion of *justification*. This means that any new efforts should be understood and evaluated in terms of what already exists, i.e. our existing social structures and practices. It follows therefore that the pragmatist approach to research as interpreted by Freeman et al. (2010:78) suggests that the following questions be answered when assessing a research project:

1. Does this work answer the question(s) it proposes?
2. Was the question meaningful and appropriate?
3. Are there alternative modes of research that could lend insight into the question(s)?
4. What are the direct consequences of this research?
5. If we teach on this insight to managers and students, what might be the result if they act on it?
6. What is the background narrative(s) of this research?
7. How will we begin to see ourselves and others if we act on this work?
8. How will this work shape the context in which value creation and trade takes place?

As such, I intend to review each of these questions in detail in my discussion of the results of this research project.

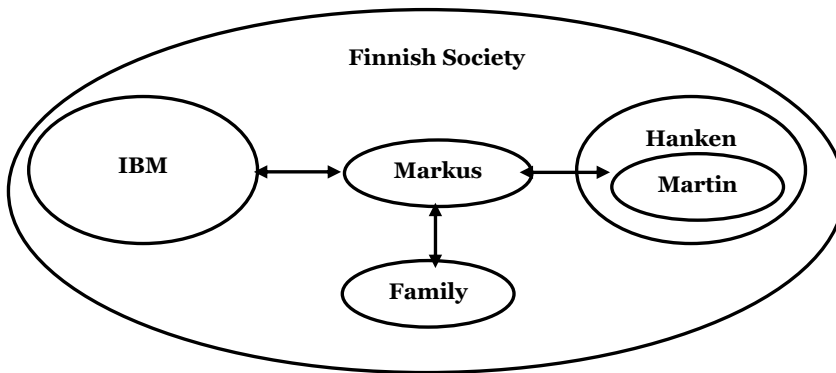
Finally, from the pragmatist perspective, the value of a research project may ultimately be seen open for judgment, based on the full scope of effects it has on its stakeholders. On this note, I next present an outline of my research process, its selected stages and the various stakeholders involved.

### **3.2. The research process**

In an attempt to give an overview of my research process, I have chosen to describe three key stages in my dissertation project using stakeholder theory. Naturally, this approach is restrained to just one simplified overview of the research process, its stakeholders and the life lived during this period. However, despite its limitations, I have chosen to share this perspective on the research process anyway in order to highlight some key aspects and people enabling this dissertation to take its present form. It is my hope that this review serves to demystify the research process and show the fragility of its development. I hope that it also serves to emphasize that this dissertation may not be seen to be a product of one man but rather to have grown out of a number of key interactions inside and outside academia. Even though the account may seem particularistic for some, I think it is important to stress this very fact in order

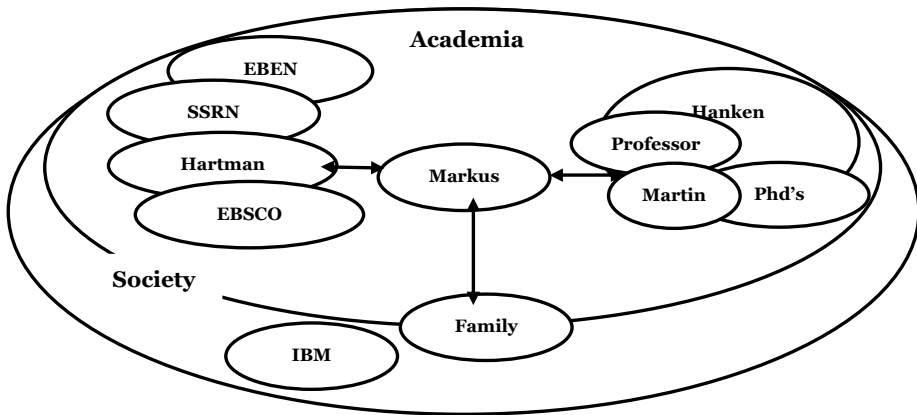
to remind the reader of the fragile nature of the study's very existence and conclusions. In addition, I have found that a thorough reflection of my various positions within and outside academia has been of essence to ensure the independence of my voice.

The initial phase of my research processes I named "Entering the Academia" as exemplified in Figure 18. During this phase I had little understanding of the dynamics of the field. A Finnish law stating that either parent is entitled to a leave of absence from work when their children are below the age of three ultimately secured me the opportunity to pursue my dissertation. I contacted my professor, Martin Lindell, to inquire about pursuing full-time studies in October 2006. As a midlife doctoral student, I was particularly grateful to him for the freedom he entrusted to me as I decided to pursue my somewhat unconventional research interests.



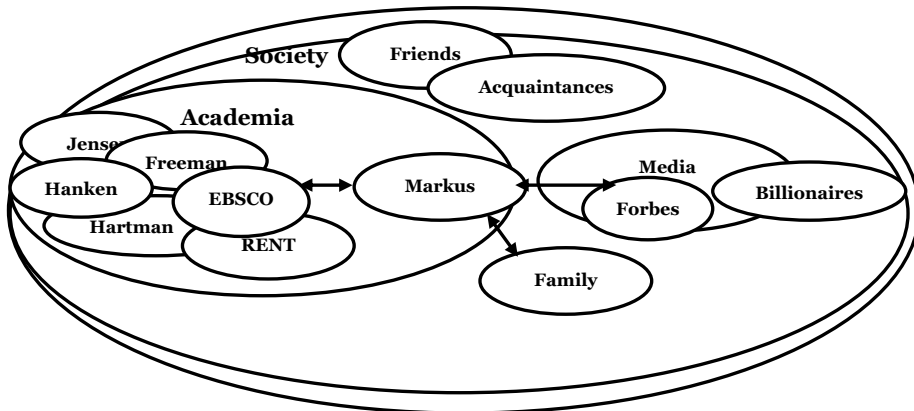
**Figure 18 Entering the Academia**

Having entered academia, I became acquainted with the process and requirements of becoming a doctoral student. I took all necessary subject and methodology courses. I was exposed to a range of ideas put forth by our instructors as well as the abundance of research available. I became acquainted with the leadership and politics of the department and had my first experiences in the wider scientific community through a multitude of articles, books, lectures and conferences. A bird's eye view of this phase of my doctoral studies is shown in Figure 19.



**Figure 19 Becoming a doctoral student**

In the midst of countless alternative research avenues, I chose to focus my empirical research on the world's billionaires, as presented in Figure 20. During my research project I had the possibility to visit Forbes Magazine in New York to interview their reporters about their work on billionaires. In terms of theory development, I acquainted myself with many different axiologies, but was ultimately most attracted to develop my thinking within the domain of stakeholder theory and more specifically the thoughts of Freeman.



**Figure 20** Researching the billionaires

During the final stages of my dissertation I spent countless hours writing and re-writing my articles and the summary. This I did first inside Hanken and thereafter along side my work at IBM, in the evenings and during weekends whenever appropriate. The unique position of writing a thesis while working outside the academia has not only been challenging at times but also has given me something of value that I would call a “pragmatic distance”. For better or for worse this “pragmatic distance” has caused me to question some of my previous assumptions and underlying motives for pursuing my dissertation while I was inside academia. I hope this added character has helped to increase the freedom, relevance and clarity of my work.

All in all, my research project could be seen as a process of increasing and deepening my stakeholder relationships. It has required an enormous amount of work and many lonely hours in front of the computer, yet it has enabled me to encounter a treasure trove of new ideas, new people and allowed me to learn and change my outlook on not only my subject but also life overall – for which I am highly grateful.

### 3.3. The data and its analysis

The data for this dissertation includes both quantitative and qualitative data. The quantitative essay on Economic Freedom and Entrepreneurship in the Extreme utilizes a time series dataset of 15 years, from 1995 to 2009, collected by Forbes Magazine on the world’s billionaires. Forbes Magazine is currently the leading authority on following the wealth of the world’s richest people, collecting data annually since 1987. The data

are given on an accuracy level of 0,1 billion dollars. The billionaires included in the analysis included all individuals whose wealth exceeds 1 billion USD, excluding monarchs and heads of state. A total of 50 countries were included in the analysis, providing they had billionaires as citizens in 2009 and possessed sufficient macro-economic data. The use and interpretation of secondary data was supplemented with qualitative background interviews made at Forbes Magazine in October 2008.

The independent variables used were based on The Heritage Foundation/Wall Street Journal Index of Economic Freedom, UN human development and World Bank macro-economic indicators. The Heritage Foundation/Wall Street Journal annual Index of Economic Freedom (IEF) is seen to measure economic policies that promote individual decision-making; market-based pricing of goods, labor and capital; limited and selective government involvement as well as openness to international trade and investment (Gigot, 2009). The index itself was seen as a particularly suitable measure due to the availability of data for each of the subcomponents of the measure and the ability to affect the measured variables through associated policy decisions. The Heritage Foundation/ Wall Street Journal Index of Economic Freedom is a composite index of ten measures of economic freedoms including Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption and Labor Freedom. The UN Human Development indicator and the market capitalization of listed companies and inflation were also used as control variables for regressions. The regressions are based on panel data, consisting of 15 years of observations per country and hundreds of billionaire observations per year.

In addition to the quantitative study, the essay on “Rationality, REMM and individual value creation” focused in on one particular decision made by one of the billionaires, i.e. Warren Buffett’s decision to give his money away to charity. The article utilized all of the available secondary data on this decision that was available at the time.

Overall, the data and information available on the world’s billionaires is abundant. Copious amounts of text have been written on the individual billionaires themselves. They have attracted and continue to attract significant media attention due to their powerful roles in respective economies. The availability of secondary data in itself provides interesting research opportunities if critically assessed for more detailed future quantitative as well as qualitative studies of certain categories, groups or even individual billionaires.

## 4 SUMMARY OF ESSAYS

The aim of this chapter is to summarize the different essays of this dissertation. The essays each represent different level of analysis on individual value creation and its extremes. Combined, they provide together a mutually complementary picture of the determinants of the rise and fall of billionaire wealth in the world. For further detail the complete essays can be found in the appendix.

### 4.1. Essay 1: Economic freedom and entrepreneurship in the extreme

Author: Markus Wartiovaara

Data: A time series dataset of 15 years, from 1995 to 2009, collected by Forbes Magazine on the world's billionaires. The independent variables include Heritage Foundation/ Wall Street Journal Index of Economic Freedom, UN human development and World Bank macro-economic indicators.

Status: Previous version of essay presented at the RENT Conference in Budapest, 2009

This first-of-its-kind essay provides a 15-year panel data study on the evolution of billionaires wealth in different countries across the world. The essay complements the existing body of research on economic freedom by exploring its effects on billionaire wealth creation. As a result, the empirical study finds positive relationships between *economic freedom, selected subcomponents of freedom, and market capitalization of listed companies and billionaire wealth per capita in a country*. According to the study, an increase in economic freedom leads to an increase in billionaire wealth when accounting for country-specific differences. The study calls for further investigation of the effects of governmental policies promoting economic freedom on different stakeholder groups and individual value creation as a whole.

In essence, the essay focuses on the relationship between the institutions of economic freedom and extreme wealth formation. The dependent variable investigated in the study is billionaire wealth per capita. However, as discussed in the essay, the relationship between institutions and entrepreneurship can be expected to be interdependent (Nyström 2008; Lee 1991; Clark & Lee 2006). Some billionaires may have substantial incentives and possibilities to influence institutions in socially unproductive ways against other entrepreneurs in order to protect their own interests.

As a whole, this study of the billionaires on an aggregated level raised a number of new interesting new questions. Further studies are called upon in order to even better understand the special demands and characteristics of such large-scale entrepreneurship. Amongst others their large societal impact and extreme survivorship bias are fascinating topics to understand further. Notable exceptions are a study by Neumayer (2004), and Kets de Vries and Florent-Treacy's case study (2003a; 2003b), the Russian entrepreneur who only later became a billionaire. As such, much additional research is called upon in order to understand individual value creation and their interdependence in societies in further depth. In particular, cross-industrial and individual case studies on billionaire wealth formation would be of value in order to widen our understanding of this extreme phenomenon of entrepreneurship and its multifaceted effects on society. Also it served to raise critical questions on the role and effects of economic freedom as a guiding measure for societal development. In sum, this essay can be regarded as to have served to open both theoretical and empirical interest into the critical study of the effects of economic freedom and billionaires in our societies.

#### **4.2. Essay 2: Individual value creation and its stakeholders**

Author: Markus Wartiovaara

Data: Theoretical essay

Status: Essay presented at the "The first interdisciplinary conference on stakeholder theory, resources and value creation", in Barcelona, June 2011

This essay is a theoretical essay contributing to the existing stakeholder vs. stockholder debate by exploring the notion of individual value creation. According to Jensen (2002) the existing debate is between two competing propositions, i.e. the "Value Maximization Proposition" which has its roots in 200 years of economics and finance and "Stakeholder theory" which has its roots in sociology, organizational behaviour, the politics of special interest and managerial self-interest. This essay explores the notion of individual value creation in a structured fashion and mainly focuses on discussing and building upon the perspectives of Michael Jensen and R. Edward Freeman.

One of the main contributions of the essay is that it introduces, develops and discusses the stakeholder theory of the individual. It highlights the benefits of complementing the

existing firm-level focal unit of analysis with an individual-level stakeholder analysis. As the essay points out, Freeman (1984) already discusses the professional stakeholders of CEOs, CFOs, marketing managers and financial managers. McVea and Freeman (2005) further argue for the importance of understanding the stakeholders of a firm on an individual level by exploring a names-and-faces approach to stakeholder management. Venkataraman and others have in turn emphasized the role of the entrepreneur in stakeholder value creation (Venkataraman, 2001; Mitchell, 2002). Nevertheless, a stakeholder theory where the individual serves as the focal entity and the full scope of stakeholder relationships, beyond the professional realm, remains an undeveloped topic within the current body of stakeholder literature.

The essay seeks to identify five main categories of stakeholders, *professional*, *private*, *personal*, *public* and *planetary*. It discusses each of these categories of stakeholders in order to provide a more comprehensive and holistic approach to understanding individual value creation in our economies and societies at large.

The presented stakeholder theory of the individual is normatively individual-centric, as opposed to manager or investor-centric. Referring to extant literature on economics and stakeholders, it further proposes a supplementary proposition to the debate on normative managerial decision-making that says that individuals *should make all decisions so as to increase the value of their lives*. Next, it goes on to present a change perspective on value and individual value creation. Lastly, it highlights *stakeholder-interest*, as opposed to a narrow or enlightened form of *self-interest*, as the most appropriate description of the motivation for individual value creation.

#### **4.3. Essay 3: Rationality, REMM and individual value creation**

Author: Markus Wartiovaara

Data: Qualitative resources for case study purposes

Status: Essay published in the Journal of Business Ethics, 2011

There is a longstanding debate on the topic of economic rationality. At the core of economic rationality is the logic of personal gain. John Stuart Mill is generally identified as the creator of the “economic man”, even though he never actually used this term in his own writings. In this essay, I develop something that could be

retrospectively now be termed as the “exchanging man” perspective on human behavior.

In practice, this essay evaluates alternative models for explaining human behavior. It compares the resourceful, evaluative, maximizing model (REMM) with the economic (or money maximizing) model of human behavior. The theoretical framework is developed to enhance our understanding of “individual value creation” and to seek an economically rational explanation to: Why Warren Buffett is giving his money away to charity? The essay develops a framework of biological, material and immaterial sources of value. The essay additionally extends the existing REMM and finds several economically rational reasons for him to give away his money including the present value of help and goodwill, gained control, and lowered transaction costs.

Empirically, the essay may be seen as a one-person, one-decision case study of a unique event in business history. However, the underlying rationale and insights provide a valuable basis for reflection for individuals, beyond billionaires, regardless of economic standing. The more recent “Giving Pledge” initiative of Warren Buffett and other billionaires to donate over half of their wealth to charity, invites continued research on the topic and continued efforts to challenge and develop our understanding of human motives and behavior in the economy and society at large.

## 5 DISCUSSION

The aim of this chapter is to discuss the theoretical contributions, empirical findings, societal and individual implications, and suggestions for further research. The theoretical contributions are discussed based on an acknowledgement of their theoretical origins. The key empirical findings and their limitations are discussed while highlighting our own role as stakeholders as conscious consumers, investors and citizens in societies at large. The research project itself is furthermore systematically discussed based on a number of criteria emphasized by the pragmatist approach. The societal and individual implications of the study are further discussed from the perspectives of individual responsibility and the challenges in achieving a positive societal change. Finally, a number of suggestions for future studies are proposed that will create an enhanced understanding of individual value creation and its extremes.

### 5.1. Key theoretical development

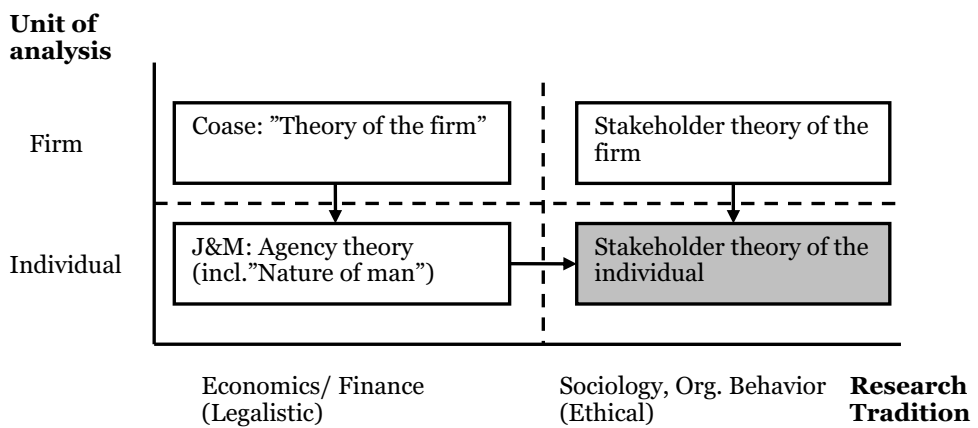
“Philosophy is written in this grand book—I mean the universe—which stands continually open to our gaze, but it cannot be understood unless one first learns to comprehend the language and interpret the characters in which it is written. It is written in the language of mathematics, and its characters are triangles, circles, and other geometrical figures, without which it is humanly impossible to understand a single word of it; without these, one is wandering around in a dark labyrinth.”

(Galileo Galilei, 1623, *Il Saggiatore* (The Assayer), as translated by Stillman Drake (1957:237-8), in “Discoveries and Opinions of Galileo”)

As outlined at the outset, the main theoretical aim of this dissertation is to contribute to three bodies of literature: axiology, stakeholder theory and entrepreneurship. In the following we will discuss each of these in turn.

First, as was outlined in the introduction, the main theoretical focus of this dissertation has been individual value creation and its extremes. Based on existing value theories, I ended up developing my own form of axiological reasoning. In the dissertation, I acknowledge Moore’s insight that value cannot be substituted by any singular definition such as beauty, justice or money. It is rather to be considered based on the sum of the effects the valued object has on us, others and the world we live in. Subsequently, I have come to regard value as change and value creation as mutual change or exchange, with both negative and positive properties.

Second, in an attempt to further develop our theoretical understanding of individual value creation and its extremes, I have worked to develop the stakeholder theorizing of the individual. The theorizing itself accepts the individual as the focal unit of analysis, not the firm or any other form of organization. The theoretical outlook provides a distinctly individual-centric and not a manager-centric approach to stakeholder theorizing. The theorizing itself is based on existing stakeholder theory and developed in parallel with the foundations of contemporary agency theory as represented in Figure 21 as follows:



**Figure 21 The stakeholder theory of the individual and its theoretical origins**

This dissertation has led me to believe that the stakeholder theory of the individual as an essential ingredient for all subsequent development of stakeholder theorizing for organizations and societies at large. It also provides an auxiliary perspective to Jensen and Meckling's (1994) views as expressed in their article "The nature of man". Furthermore, it develops a framework of different categories of stakeholders: *professional, private, personal, public and planetary*.

The conceptual framework laid forth provides each individual with a means to map out, analyze and develop one's own understanding of one's stakeholders and relationships. It can also serve as a means for understanding other people's perspectives on their stakeholders as well. In the dissertation, I have further argued for the *stakeholder-interest* as opposed to *self-interest* and *altruism*, as a better description of individual motivation and value creation. In the third essay of this dissertation, I have in addition

explored the rationality of the REMM model of “giving now” instead of the Economic model of “maximizing one’s wealth” until death.

In this dissertation, I have come to recognize that the deliberate value judgment of simplifying one’s focus on stakeholders, rather than the multitude of exchanges individuals are constantly engaging in is both the strength and the weakness of this line of theorizing. The exchange perspective of the individual as they interact with the world could be seen as one of the core personal insights arising from this dissertation. To paraphrase Descartes, this insight could be summarized as follows: “*Muto ergo sum*” or “*I exchange, therefore I am*”.

Both the stakeholder perspective and the freedom to exchange were further discussed in the theoretical review. The economic, political, social and individual forms of freedom were deemed to be interdependent. Freedom of the individual was further discussed as the most important form of freedom to be pursued. In our discussion on freedom of the individual, the integral role of individual responsibility was emphasized in determining the quality of freedom for oneself and others. With regard to extant literature on economic freedom and different forms of entrepreneurship, my essay on economic freedom highlighted the value of a more fine-grained understanding of the different stakeholder effects resulting from various forms of governmental policies promoting economic freedom. From this perspective, Baumol’s (1990) notions of productive, unproductive and destructive entrepreneurship stand to gain from a stakeholder based analysis of the effects of select governmental policies. A more detailed understanding of the effects of governmental policies on entrepreneurial value creation and destruction for each stakeholder group provides a better basis for more constructive and balanced policies and societal development. Dew and Sarasvathy (2007) point out that both the positive benefits and negative externalities of entrepreneurial innovation are problematic due to limited insights into the full scope of stakeholder effects. They conclude that the intersection of stakeholder theory and entrepreneurial innovation is a potentially rich area for research. In line with their observations, my research determines that the intersection of stakeholder theory and entrepreneurial policies would also be a valuable area for additional research.

Third, in the terms of entrepreneurship research the stakeholder theory of the individual also falls in particularly well with the existing body of research focusing on the stakeholder approach to entrepreneurship. The stakeholder approach to entrepreneurship is itself a growing topic. A notable contribution is the Ruffin Series

publication on Ethics and Entrepreneurship (Freeman & Venkataraman eds., 2002) involving both leading stakeholder and entrepreneurship scholars. Herein, according to Venkataraman (2002:54): "...recasting the central purpose of the firm as serving the interests of stockholders to one where it serves the stakeholders is an innovation in organizational form of Shumpeterian proportions". However, while agreeing on the central nature of stakeholders, Vandekerckhove and Dentchev (2005) challenge the firm as a stakeholder hub perspective and argue for a stakeholder network approach to entrepreneurship. This dissertation contributes to this effort with the development of the stakeholder theory of the individual as a complement to the firm-level stakeholder approach to entrepreneurship. The value of the stakeholder theory of the individual in this context is in providing a more holistic and multidimensional understanding of entrepreneurial individuals and their stakeholders. In addition, it serves to identify and distinguish the key categories of stakeholders (professional, private, personal, public and planetary) affecting or affected by entrepreneurial behavior. As such, a more holistic approach to understanding individuals provides better opportunities for a more balanced perception of one's self and others. While other existing researchers, such as Schlange (2009) discuss three main categories of entrepreneurship, i.e. economic, social and environmental entrepreneurship, the stakeholder approach of the individual allows for more detailed, stakeholder-based categorization of fields of entrepreneurial activity.

Moreover, I would like to call attention to the central notion of the concept of value brought forth by the stakeholder approach to entrepreneurship, a phenomenon also recognized by Venkataraman (2002:45). While different studies employ different semantic foci, entrepreneurial opportunities by Shane and Venkataraman (2000) and entrepreneurial possibilities by Landström (2010), I have come to find the stakeholder focus on values a balanced and attractive explanation that deserve more attention. The topic of values quite naturally raises questions of preferences and value judgments, which are of essential interest for understanding science itself and our social phenomena studied.

During the process of my dissertation, I long sought an appropriate way of summarizing my perspective on entrepreneurship. The process of *creative destruction* originally outlined by Schumpeter (1943: 81-86) in "Capitalism, Socialism and Democracy" calls in my view for a more contemporary and accommodating formulation on an individual level. Human beings, i.e. individuals and their stakeholders, should be

at the core of our understanding of entrepreneurship. Our different forms of ethics and values provide the very basis of our various forms of value creation, mutual change or exchange. *In essence, for me entrepreneurship is a process of stakeholder transformation.* Building upon Sarasvathy & Dew's (2005:543) appealing representation of the key elements of this process for new firm and new market creation, I would emphasize the fundamental value of entrepreneurship in the joint creation of new individuals and new societies for us all to enjoy. During our lives we participate in a constant process of transforming each other. Friends may become business partners and business partners may become our friends, our customers may become our re-sellers and innovators and our children ultimately may become our mentors and future leaders. Life is a process of continuous transformation. We assume different roles or better our existing roles through a process of mutual change and exchange with our stakeholders and the world around us.

Entrepreneurship does not in my mind limit itself to a formal definition of establishing enterprises. Entrepreneurship exists everywhere where people are working for a better world for one's self and for others. I consider working as a salaried employee in order to improve one's world by feeding and sheltering one's family is authentic entrepreneurship as well. Novel interpretations of entrepreneurship may unlock new organizational forms and entrepreneurial behavior among people who did not consider themselves entrepreneurial before. While, entrepreneurial behaviour, within a firm or organization has been studied widely under the topic of intrapreneurship, I would see special value in exploring what I call *interpreneurship* in further detail. For me interpreneurship stands for something between entrepreneurship and intrapreneurship, i.e. the establishment of new business units, daughter companies or organizations by existing ones and entrepreneurial individuals. To me, the very beauty of entrepreneurial behavior is about finding new and complementary ways of seeing and treating others and organizing for more fruitful ways of co-existence.

Ultimately, each research project is faced by the ruthless question of: - so what? On a personal level, this question can be reformulated as: what relevance does the study and its findings have for my stakeholders and me? As such, the study and its findings are unavoidably subject to various value judgments and political interests, as already witnessed during the course of pursuing this dissertation. The topic of the rise and fall of billionaire wealth could have been approached from many different perspectives and levels of analysis. The explanatory factors to consider before we can better understand

the rise and fall of billionaire wealth are obviously manifold. However, in my mind the unique value of the developed stakeholder theory of the individual is that it ultimately serves to underscore our own role and responsibility both in the creation of extreme private wealth as well as in developing our understanding thereof.

## 5.2. Key empirical findings

“Unlike the position that exists in the physical sciences, in economics and other disciplines that deal with essentially complex phenomena, the aspect of the events to be accounted for about which we can get quantitative data are necessarily limited and may not include the important ones. While in the physical sciences it is generally assumed, probably with good reason, that any important factor which determines the observed events will itself be directly observable and measurable, in the study of such complex phenomena as the market, which depend on the actions of many individuals, all the circumstances which will determine the outcome of a process, for reasons which I shall explain later, will be hardly ever fully known or measurable. And while in the physical sciences the investigator will be able to measure what, on the basis of prima facie theory, he thinks is important, in the social sciences often that is treated as important which happens to be accessible to measurement. This is sometimes carried to the point where it is demanded that our theories must be formulated in such terms that they only refer to measurable magnitudes”.

(Hayek, 1974:3)

The concentration of extreme private wealth remains a fascinating mystery. The quantitative essay has served to give initial indications of the relationship between economic freedom and extreme private wealth. However, the results may only be indicative at this stage and invite further inquiry. In order to re-iterate the findings, the regressions obtained the following results. A pooled regression showed no significant relationship between aggregated billionaire wealth per capita and the explanatory variables. However, the pooled regression does not account for country-specific variations and treats the data as belonging to one single individual (Koop, 2008: 258). Further tests were conducted with the fixed and random effects models accounting for individual differences. The random effects model accounts for individual differences through differences in the error term, whereas the fixed effects model uses country-specific dummy variables. These turned out to suggest a significant dependence between aggregated billionaire wealth per capita in a country and the overall Economic Freedom as well as the market capitalization of listed companies per capita. Excluding selected countries at a time tested the robustness of the results. The results remained qualitatively the same, yet with a somewhat lesser degree of explanation. For instance, the exclusion of United States gave non-significant results for economic freedom in a pooled regression. However, the random effects model gave a coefficient value of 25,6\*\* (t-value:1,96) and the fixed effects model a coefficient value of 22,67\* (t-value:1,80) for

economic freedom. The market capitalization coefficient remained at roughly the same level and significant in the tested models.

A particularly interesting finding was the strong positive relationship between billionaire wealth and market capitalization of listed companies per capita. In effect, many of the billionaires have substantial holdings in market-listed companies. Furthermore, many billionaires have big holdings in the companies that made them rich in the first place. As such, the billionaires tend to remain relatively poorly diversified. The selected time period witnessed an unprecedented increase in billionaire wealth in the post-communist countries in particular. The growth of billionaire wealth in these countries has largely been affected by the privatization of previously state-held properties, together with the integration of these countries with the international capital markets.

In order to test the individual subcomponents of Economic Freedom a total of 30 additional regressions were carried out. The fixed effects model gave significant positive results for Investment, Financial and Labor Freedom, i.e. the freer an economy is regarding these criteria the more billionaire wealth per capita in a country. The negative effect for Monetary Freedom indicates that an increase in inflation and price controls lead to an increase in billionaire wealth. Testing the robustness of the results with the exclusion of United States produced similar results. The random effects model supported the results obtained from the fixed effects modeling, while also providing significant results for Business Freedom. Overall, in the fixed effects, modeling the explanatory variables tend to become less significant due to the inclusion of country-specific dummies that themselves provide a part of the explanation. The results from the pooled model provided varied results on an aggregate level, while not accounting for country-specific differences.

The empirical study complements the existing studies on economic freedom by exploring its effects on billionaire wealth formation. According to the study an increase of Economic Freedom leads to an increase in billionaire wealth when accounting for country-specific differences. On an aggregate level the results thus support the productive perspective instead of the non-productive perspective concerning billionaire wealth formation. However, this does not exclude the existence of non-productive behavior in some countries in particular. As such, there are significant differences among countries. The sources and growth of billionaire wealth in the United States,

Sweden, Russia vary significantly. Japan itself provides an exceptional case due to its continuous decline on the world's billionaire list during the time period.

The study focused on the relationship between the institutions of economic freedom and extreme wealth formation, assigning billionaire wealth the role of the dependent variable. However, it should be recognized that the relationship between institutions and entrepreneurship can be expected to be interdependent (Nyström 2008; Lee 1991; Clark & Lee 2006). Some billionaires may have substantial incentives and possibilities to use institutions in a socially non-productive way against other entrepreneurs in order to protect their own interests. A deeper understanding of the interdependency between billionaires and the institutions of economic freedom is an area that needs to be further explored.

Institutions of economic freedom are just one part of the institutional environment at large. For a balanced development of societies, the discussion of the effects of economic freedom calls for a broader discussion of societal freedom at large. What other societal institutions are of relevance for entrepreneurial wealth formation? And how are institutional policies to be developed to maximize not only economic, but individual freedom at large? What is the importance of political freedom and freedom of the press, as well as educational, healthcare and environmental policies, for promoting the development of free and prosperous individuals? The UN Human Development indicator did not provide any significant results in these regressions. Nevertheless, the development of more comprehensive societal development (or social freedom) measures in order to complement the economic freedom measures for a more nuanced comparison of societies and their sources of wealth creation would be of special interest.

Finally, in terms of intellectual honesty I cannot overemphasize the need for caution in interpreting the empirical findings. In my mind the empirical findings do not serve to answer the mystery of the rise and fall of billionaire wealth, but provide instead just small pieces of the puzzle. The results of all empirical studies are unavoidably confined to their respective time and place. Life changes and our institutions change giving rise to new relationships to be discovered and understood better. Too many aspects are unavoidably left into the dark and the light that we see is continuously changing. Despite these limits to our understanding, the stakeholder approach developed in this dissertation highlights the importance of individual responsibility in creating the world we live in. Hence, our own involvement as stakeholders, in our roles as consumers,

investors, employees and citizens, in the creation of extreme private wealth cannot be neglected. We all are either directly or indirectly affecting or affected by the creation of extreme private wealth. Ultimately, it is we ourselves that need to carry the responsibility for the consequences of our individual and collective actions towards the creation of the world's billionaires and more broadly for the appropriate development of our societies.

### **5.3. Discussion of results**

“Luck makes billionaires...They [the billionaires] may think they have done it all themselves but society has done an awful lot for them. If you get the chance to live very rich (in this society) you really ought to have a taxation system – and a personal value system – where a lot goes back to the people who got the short straws in life.”

(Warren Buffett, *The Guardian*, 27.10.2009)

Based on the insights of this dissertation, I have come to regard the importance of our role as stakeholders in the economy and societies at large. We make our billionaires. Our actions in buying, working for and investing in the products and services of billionaires contribute - even if to a miniscule degree - to the amassment of extreme private wealth. However, whether we as actors can be conscious of the full set of consequences in the economy remains questionable. As enlightened consumers, we are faced with a myriad of questions concerning the usefulness of products and services, the means of production and their effect on nature. As such, knowing the effects of our actions as consumers or citizens on the wealth of billionaires may only serve as marginal interest to consider. However, as enlightened citizens we can be a part if we so choose of promoting taxation systems that promote more balanced income distributions in our societies. Furthermore, addressing the aforementioned stakeholder challenge, i.e. our limited care and understanding of the causes and consequences of our actions, remains a continuous issue for our education system, social policies and culture at large. Developing our awareness on an individual as well as an aggregate level is essential for the long-term prosperity of life at large.

Overall, while the dissertation project has provided me substantial insights into the chosen topic, much remains a mystery. However, as much as there are additional issues to be researched, at some point it is time to stop the work and assess that, which was undertaken. As previously discussed, the pragmatist approach to research as interpreted by Freeman et al. (2010:78) suggests that the following questions should be answered when assessing the value of a research project:

1. Does this work answer the question(s) it proposes?
2. Was the question meaningful and appropriate?
3. Are there alternative modes of research that could lend insight into the question(s)?
4. What are the direct consequences of this research?
5. If we teach on this insight to managers and students, what might be the result if they act on it?
6. What is the background narrative(s) of this research?
7. How will we begin to see ourselves and others if we act on this work?
8. How will this work shape the context in which value creation and trade takes place?

In order to provide a systematic discussion of the results, I will in the following review each of these in turn.

### **1. Does this work answer the question(s) it proposes?**

The main empirical research question of the dissertation, i.e. what explains the rise and fall of billionaire wealth in the world, was addressed on three levels of inquiry: a societal, individual and individual decision-based. Each of the articles in turn addressed certain aspects of the phenomena in their respective levels of analysis.

The first article provided an empirical study based on the available data on the phenomena of billionaire wealth creation and its relationship with economic freedom. The second article developed our theoretical understanding of individual value creation and its stakeholders. The third article explored the topic of economic rationality with regards to one decision of one billionaire, Warren Buffett, to give his money away to charity.

Considering the findings of these essays, what then explains the rise and fall of billionaire wealth in the world? In order to attempt to answer the question a number of sub-questions arose in conjunction to each of the articles, concerning the effects of economic freedom, individual value creation in general and different perceptions of rationality. Furthermore, the research topic itself highlighted the unavoidable limits of our knowledge and means of measurement in understanding the phenomenon. However, this did not discourage attempts to pursue a structured approach in order to develop some understanding, even if a minimal one, of the chosen topic.

The first article explored the empirical relationship between billionaire wealth and economic freedom as discussed in the previous chapter. The second article developed

the theoretical understanding of individual value creation and its stakeholders. It highlighted in particular the multitude of different stakeholders affecting and being affected by individual value creation. The key stakeholder categories were identified as professional, private, personal, public and planetary, providing a good framework for understanding the sources of wealth for billionaires themselves. People's paths to riches may take a multitude of different forms. These may be due to entrepreneurship as a part of their professional activities, but it can also be attributed to decisions made in the private spheres of life, with regards to inheritance, marriage, divorce, legal disputes and different acts of politics. Furthermore, by extending the stakeholder framework of an individual we may come to see that the key person responsible for the existence of billionaires is ultimately - we ourselves. The choices we make in the economy to purchase products or services, work for selected companies, invest in certain stocks, or promote this or that economic system or policy all affect to a smaller or larger degree the distribution of wealth in society. Most of our existing societal structures are the results of the decisions of others and previous generations, however, this does not limit our responsibility for being conscious of the causes and consequences of our actions and working for a better society in the future.

The third article explored the importance of specific ideas and relationships that affect the decisions of billionaires. It explored in particular Warren Buffett's decision to give his money away to charity. The empirical secondary data of the case illustrated the logic of the REMM model, as opposed to a more economic maximizing model of human behavior.

Overall, rather than providing an all-encompassing answer to the questions involved, the dissertation may be seen to have provided a structured approach to the topic of extreme wealth creation. It has offered, new theoretical insight, while highlighting the complexity of the phenomena and raised new intriguing questions. Hopefully, it also provided inspiration for others to explore the subject further. As such, it is the hope of the author that the dissertation has at least to some extent fulfilled its task of beginning to understand the issues, stakeholders and complexities involved with regards to the rise and fall of billionaire wealth as well as individual value creation in the world.

## **2. Was the question meaningful and appropriate?**

The original aim of my dissertation was to research the phenomena of greatness in business. However, due to a multitude of reasons, including the issue of the availability

of data, I decided to pursue the topic of billionaires. However, the choice to study the world's billionaires has been a controversial one from the start. The study of billionaires has raised many emotional responses concerning the justification, appropriateness and values put forth by the study. During the course of the dissertation I grew particularly concerned with two aspects of my research. Firstly, I have become particularly concerned whether a superficial reading of my dissertation would result in another form of idolization of money and the rich? It is my sincere hope however that a more extensive review of the topic of individual value creation discussed in the dissertation would remedy this. Second, I have become particularly worried about the potential misinterpretation of the research project and the conclusions herein by the media. The research topic itself is of great media interest. The billionaires are celebrities in their respective countries, raising a wide array of feelings among people. While the topic of billionaire wealth may be of particular theoretical interest when considering individual value creation and its extremes and is of general interest, it all too easily diverts attention away from other pressing or less-talked-about issues at hand. In other words the problem of the existence or non-existence of billionaires should not be given greater weight than other problems our theorizing could learn from or practical issues that individuals are facing.

Despite these challenges, I decided to pursue my studies on this topic for a multitude of successive reasons. While much research has been done concerning different types of entrepreneurship, I recognized quite early on that the extreme form of billionaire entrepreneurship was a subject that had been largely ignored. I regarded this originally as gap in entrepreneurship literature that could provide us some new understanding of entrepreneurial value creation in its material extreme. However, during the course of the dissertation I came to realize that the gap was of an even more fundamental nature. While, the majority of the billionaires (65% in 2009) are categorized by Forbes as self-made and hence could be treated as entrepreneurs, it did not give the full picture. While, a part of the remainder could also be considered family entrepreneurs, this too failed to give the full picture. I came to realize that the empirical focus on billionaires went well beyond the traditional discipline of entrepreneurship. This led me towards my efforts to understand individual value creation from a broader perspective. This realization invited me to further explore different forms of axiologies and stakeholder theory in particular in order to develop a deeper understanding of individuals and their forms of value creation. Beyond the gaps in current entrepreneurship or economics literature, I have especially grown concerned about the limits of the disciplines in terms

of individual value creation. The excessive emphasis on economic values over other values in our discipline must cease and more comprehensive approaches to understanding value and a systematic development of alternative axiologies with a broader understanding of value must be developed.

On a reflective note, I have found that it particularly interesting that in terms of my quantitative study both the chosen dependent variable, i.e. billionaire wealth and the independent variable of economic freedom have been affected by the issue of availability of data, as so well highlighted by Hayek (1974:3). The search for quantifiable research questions and answers for a dissertation is regrettably distracting but often necessary part of shaping the nature of the research and attempting to legitimize the research project overall. Returning to the original research topic of greatness in business could provide an interesting avenue for others to pursue, provided that they are able to stay resilient in the face of pressure to produce quantifiable data such as I have encountered in academia.

### **3. Are there alternative modes of research that could lend insight into the question(s)?**

Surely, yes. This dissertation and its essays only serve as limited introduction to the topic. As mentioned, the dissertation addressed the topic mainly on three levels of analysis: on a societal, individual and individual decision-based. As discussed in the limitations of the study, the empirical material on billionaires would lend itself to some highly interesting analysis on a company and industry level as well. Studies into the effects of different billionaire industries and the various characteristics of billionaire firms as opposed to entrepreneurial firms in general could open up valuable new insights into the wealth creation mechanisms of billionaires. In addition, studies focusing on gender, family, education, special geographical subgroups of billionaires, and individual case studies would be interesting in order to understanding the phenomena in further depth.

### **4. What are the direct consequences of this research?**

Ultimately, I remain rather skeptical with regards to the direct consequences of this research, even though it may have raised a number of interesting questions concerning individual value creation and societal policies at large in conjunction with each of the three articles.

However, against the odds, I would hope that I have been able to highlight the importance of taking responsibility for our actions both on an individual and societal level. My ardent wish is that this study has furthermore highlighted the importance of individual freedom beyond other forms of freedom. On an individual level, I hope that it may have underscored the importance of transformation or creative destruction of our limited beliefs for continued improvement of our lives.

**5. If we teach on this insight to managers and students, what might be the result if they act on it?**

As a whole, I would remain careful of outlining one particular insight of this research that should be taught to managers and students. However, if I would have to choose one, out of the range of insights that I have come across during the process of research, I would highlight the utter limitations and erroneous nature of our individual beliefs. Our beliefs may it be of the wealth billionaires, the world or any aspect of our own lives are unavoidably confined and filled with misunderstandings. Hence, I would argue for the importance of questioning, listening and learning more for a better understanding of the world around us. In addition, I would emphasize the importance of expecting the unexpected, and consequently developing our capacity to re-act to unexpected changes. Lastly, I would argue for the value of time. While there is a range of material and immaterial values that may be obtained in life, time and moments lost cannot ever be regained.

Ultimately, I hope that my insights based on a deeper and a continued dialogue on these subjects would help managers or students to better prioritize the use of their time and take responsibility of the causes and the consequences of their actions.

**6. What is the background narrative(s) of this research?**

Beyond the empirical research project, the research has been for me a process of defining and living a great life. By great life I mean something exceptionally good or something not only good for oneself but for others as well. Naturally, my definition of a good life is a highly personal one, arising from my own situation and stakeholder relationships in life. However, life does not come without problems and challenges. Living a great life does not in my mind mean living a life without such issues and events, but rather finding different means of overcoming one's difficulties. Ultimately, I

would perhaps most concretely see my limited interpretations of my own life and worldview as providing the essential background narratives of my research.

### **7. How will we begin to see ourselves and others if we act on this work?**

On an individual level, the dissertation has been a wake-up call for me in terms of revealing the incompleteness of our understanding. It has awoken in me the desire to learn more. It has also highlighted the importance of responsibility for oneself and others.

The dissertation has devoted a considerable amount of attention to the description and re-description of people as individuals, via the development and discussion of the stakeholder theory of the individual. Based on the empirical focus of the dissertation and the notion of how we see others, I have come to realize the particular importance of attempting to clarify for myself how I have come to see billionaires. In the following is a summary of related questions and perceptions that I have found of value to clarify for myself.

#### **Is it good that billionaires exist in the world?**

I believe it is good. I believe that the existence of billionaires is an expression of human freedom and diversity. It can give hope to others regarding the material progress of an individual. In this respect I believe it is something to celebrate. However, whether this is something to emulate one's own life after is another question. There are many other values, characteristics and gifts to celebrate in this world.

#### **Is the existence of all billionaires good?**

I believe no. The means and conditions by which billionaire wealth has been acquired vary significantly. Whether they have acquired their wealth by just means and whether the societal conditions in which they have been acquired can be considered fair is in many cases debatable. I believe that this study has highlighted the importance of considering the effects of policies on economic and individual freedom for all stakeholders involved.

#### **Should billionaires continue to be studied?**

I believe yes. Much can be learned from this unique category of people. Their lives provide many interesting stories beyond material richness. In many cases, they can also provide warning examples of the burdens of wealth. However, on the whole, the study of billionaires should not be a privileged field of study, but rather a marginal one within

economics and entrepreneurship. As in the field of biology, there are many other interesting species beyond the dinosaurs; the billionaires should provide no exception. A balanced approach for studying the whole flora and fauna of economics and social value creation is more suitable.

### **What should be studied in particular?**

I do not want to set a prioritized research agenda concerning the study of billionaires. People should study what they are interested in. However, much research is needed at the industry, company, group and individual level in order to understand this phenomenon in further depth. This study has highlighted the importance of studying individual value creation beyond the economic realm. Hence, I have come to regard the development of axiology as a discipline of its own as a fascinating subject for further investigation.

### **8. How will this work shape the context in which value creation and trade takes place?**

This dissertation has hopefully succeeded in highlighting the need for a holistic understanding of value creation, i.e. that value creation is pervasive and it takes place beyond the realms of markets and capitalism. As such, I hope it has succeeded to stress the importance of homes, families and relationships for a more comprehensive understanding of individual value creation. As a result of this dissertation, I have come to regard that a better understanding of individuals is a key for a greater understanding of the world we live in and how to make it better. A deeper and more comprehensive understanding of individuals emphasizes the importance of all types of human exchange relevant for value creation, beyond simple commerce.

Finally, more poetically, if my dissertation would be regarded as yet another piece of work in the vast sea of scientific publications - how would it differ? I would argue that it would first and foremost differ due to the layered darkness of its waters. This darkness is not attributable to pessimism, but rather to ignorance and the potential danger of our misguided and poorly articulated beliefs. It reminds us of the importance of all travellers on these waters to stay awake and take responsibility for the direction of their lives. In its proximity it would, seek to shed a light of individual hope and freedom encouraging us to move forward.

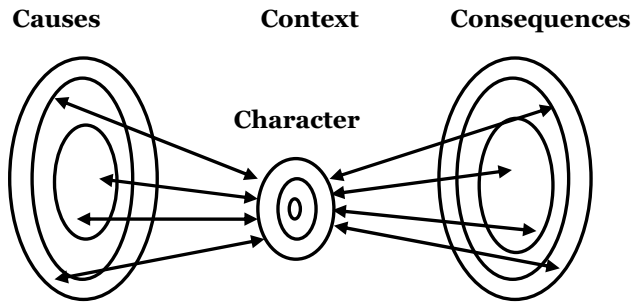
#### 5.4. Societal implications

“If a man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible...The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson of humility which should guard him against becoming an accomplice in men’s fatal striving to control society – a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilization which no brain has designed but which has grown from the free efforts of millions of individuals”

(Hayek, 1974:7)

In an attempt to somehow improve the social order, it is of essence to understand in what context one intends to do it. In practice, our abilities to improve social order cannot be but inherently limited. What kind of change in social order does my dissertation then argue for? Based on the insights gathered from this dissertation, I would argue that any attempt to change social order should start with oneself. My dissertation process has made the importance of individual responsibility clear to me. What do I specifically mean by individual responsibility? For me, individual responsibility means responsibility for both oneself and others. It is about changing the world for the better in all spheres of existence. Ultimately, this involves changing the way we interact and exchange with others. It may mean a transformation of ourselves as citizens, employees, investors, family members et.c. by improving as well as by walking away from our existing stakeholder relationships. An essential part of living a better life starts consequently with understanding and loving ourselves better. Our abilities to listen and learn better may help us on the way of better assessing and taking control and responsibility of our own and our stakeholders lives.

While much of the economic theory on decision-making is focused on the consequences of one’s actions, I would emphasize the importance of also paying attention to our interpretations of causes, character and context, as shown in Figure 22. Why is that? Quite simply, our limited understanding of the consequences of our action necessitates that we remain open to other sources of information as well. Only, studying and reflecting upon our understanding of the causes of our actions, we can free ourselves from some of the undesirable and unconscious reflexes that govern our actions. These interpretations of the supposedly unseen causes of our actions have a concrete effect on how others see our deeds, methods and motivations. By paying attention to our understanding of our character, we may become more aware of the kind of person our actions are turning us and our stakeholders into over time.



**Figure 22 Domains of individual responsibility**

Overall, individual responsibility goes well beyond the particular professional roles and organizations that an individual is engaged in. Individual responsibility involves taking responsibility for all spheres of individual value creation. However, the ability and desire of an individual to take responsibility for her actions does not originate in a vacuum. Our institutional environment, i.e. the context in which we live in, is highly formative - something a responsible individual should be equally mindful to nurture. The institutional environment in which we live is a result of long-term evolution. The different phases of evolution could be characterized based on different central issues or controversies affecting the epoch of development.

According to von Mises (1996: 878):

“In the sixteenth and seventeenth centuries religion was the main issue in European political controversies. In the eighteenth and nineteenth centuries in Europe as well as in America the paramount question was representative government versus royal absolutism. Today it is the market economy versus socialism. This is, of course, a problem the solution of which depends entirely on economic analysis.”

Based on the insights of this dissertation, I would, however, propose that the core problem of individuals throughout the ages has always been our beliefs, or more explicitly, our erroneous beliefs, which are the primary factor constraining the quality of our lives. The economic and social systems we live in as a result of our limited cognitive and emotional make-ups are prone to error, preventing us from identifying and tackling the main issues limiting our freedom. All human activity is too often constrained by our own ignorance, superstition, faulty doctrines and religions. In addition, the conceptual myopia or nearsightedness that limits our focus to the immediate present all too often leads us to fail to understand the causes of, and neglect the consequences of, our actions affecting our stakeholders over time. I also argue that we recognize the limits of economic analysis for individual value creation. Our

problems of value are ultimately more fundamental than what economic analysis allows us to address. I would rather voice the possibilities put forth by more profound axiological reasoning as a means to improve the quality of our lives.

Economic doctrines focusing on the debate between market economy and socialism have previously led to institutionalized responses that are often unable to tackle current issues limiting the freedom of individuals. With regard to the functioning of the markets, Freeman et al. (2010) outline a new vision for capitalism – stakeholder capitalism – founded on libertarian and pragmatist lines. Their articulation of the capitalist narrative is appealing. However, in order to round out their views I believe that we also need to ultimately envision what kind of world we wish to live in. Beyond the issues of capitalism, we need to ask what kind of exchange between individuals we are looking for in our homes, among friends, firms, organizations, as well as markets and political systems. Economic, political, social and individual freedom for all stakeholders does not occur without taking responsibility. The “boundedly moral” nature of man leads people to reinforce their limited stakeholder interests at the expense of others. In order to ensure open, fair and responsible exchanges between individuals, different forms of intervention are called for. In particular, the defense and progress of different forms of stakeholder rights is essential in order to secure a balanced development of open and fair societies. However, despite the call for responsibility it remains vitally important to remain considerate with regards to the full scope of negative effects any attempt of “doing good” unavoidably brings forth.

### **5.5. Individual implications**

As a whole, this dissertation project has been a highly personal experience. In an attempt to summarize its significance, I would argue that it has most importantly opened up for me new courses of action through a process of insights. Firstly, it has enabled me to *free up* (at least to some extent) from a number of previous misconceptions about economics, business, society and life in general. Second, it has taught me to *open up* in a multitude of ways, to challenge my limited beliefs and to appreciate the uniqueness in each moment. Thirdly, it has taught me the importance of *taking responsibility* for my life and my actions, as inadequate as they may be at times, and yet simultaneously essential for improving the quality of life as appropriate.

Since, Milton Friedman's famous article in the Wall Street Journal in 1970 "The Social Responsibility of Business is to Increase its Profits" there has been a great deal of discussion about corporate economic and social responsibility. While Friedman faithfully warns against the wasteful spending of corporations, others have reacted against some of his seeming disregard for the effects of businesses on societies. Freeman (2008) eloquently shares his views in an attempt to end what he calls the so-called "Friedman-Freeman debate" by clarifying some of the unnecessary tensions between economists and stakeholder theorists. Recently, Freeman and Auster (2011) among others have defined the role of values and the scholarly call for responsibility more completely. Ultimately, I would argue that the debates come down to the question of individual freedom and responsibility. Rather than arguing for one or the other form of corporate responsibility in general, each individual needs to confront his or her own responsibility for his or her actions and forms of value creation whether this be as employees, investors, citizens, consumers or whatever role we take in life.

According to my *value as change* perspective, the value of something can be assessed by the change it makes. Reflecting on the value or change this dissertation has made on an individual level calls for some serious reflection. The net result of sacrifices versus gains on a material, physical, financial, biological, emotional, intellectual, aesthetic, moral or spiritual level calls for caution in terms of recommending a similar choice of pursuing a doctoral dissertation for others, instead of just enjoying the fruits of this labor.

Each one of us is responsible for the existence of billionaires. Our choices as consumers, employees and investors of companies such as Microsoft, Coca Cola, Google, Virgin and Ikea all contribute to existence of billionaires. What is more, the economic policies we choose to support as citizens all contribute to creation of an institutional environment more or less favorable to billionaire wealth. However, whether this is an issue to be concerned about on an individual level beyond academic research, in lieu of or discussing the development of more open and fairer societies at large or just focusing on more important aspects of affecting the quality of our own lives remains questionable. Overall, in my mind the most interesting questions concerning billionaires focus on what we can learn from them in terms of value creation to the extent it may be of relevance for our own unique situations at hand.

As individuals, we are given a limited time of existence, what we do with our time becomes the ultimate open question in our lives. Attempts to answer the open question

can be considered a form of strategizing. In Mintzberg's (1994) typology of how people use the concept of strategy, one of the most common is the notion of a strategy as a plan, in essence, the attempt to answer the question: *How to get from place A to B?* Based on a temporal stakeholder perspective the question could be reformulated as: *"How to get from point A to point B in time - with the best possible stakeholder effects?"* In order to deliver best possible stakeholder effects we need to better understand our particular stakeholders and how what we do affects them. Beyond analytical skills, care, imagination and passion for a better future are needed.

For me, the study of billionaires is still at its very beginning. Yet, I have encountered a multitude of transforming personal insights concerning the value of money, other people and time. Each of the billionaires and their respective countries of origin have a highly unique history. The billionaire data has revealed certain patterns of value creation on an aggregate level, beyond the relationship with economic freedom, which have personal implications, but it is too early to discuss them at this stage. Much more research is needed before we can arrive at a more comprehensive understanding of this phenomenon.

Ultimately, the development of my own axiological reasoning is one of my main discoveries during the process of the dissertation. In its practical sense, I believe axiology is about living better. What is more, it is not only about asking how to live better, but also about simply living better. How does one do it? I believe that living better starts from listening better. Most of us have been given five senses with which we can understand the world. Art has given us a range of expressions of beauty of which no single mind could have dreamt. Furthermore, science has given us a range of quantitative and qualitative methods for a balanced assessment of different situations and phenomena. Listening better enables us to take better leadership of the pervasive change in and around us. By listening better, we understand better the consequences of one's own and other's actions upon each other, and are able to take better responsibility for the change. The ability to listen better is essential for people to love better, i.e. to love themselves, to love others and to love life. How do we then love better? By loving better I mean loving more holistically: investing your heart, your mind and ultimately every cell of your body. It means being better connected to and sharing one's life with others.

On that note, ever since Adam Smith's (1776) "Inquiry into the Wealth of Nations", people have been developing economic theory. His notion of the invisible hand has

continued to fascinate our exploration of the nature of societal and economic development. Beyond economics, I cannot resist taking the freedom of making a reference to another source of inspiration for me well beyond the realm of science. I refer to one of the most accomplished martial artists of all time, namely Bruce Lee. Bruce Lee's (1975) book "The Tao of Jeet Kune Do" articulated his own approach to martial arts. Jeet Kune Do can be translated as "the way of the intercepting fist" or intercepting foot. Similarly, it has become my personal belief that the ability to listen and act with one's whole body: may it be together with one's hand, foot, brain or heart, provides the basis for individual freedom, self-defense and responsibility.

Finally, as we are coming to the end, it serves to reflect upon the impact of this work on you, the reader. Pierre Bourdieu, one of the leading sociologists of the 20<sup>th</sup> century, introduced the term symbolic violence. Symbolic violence, in essence, stands for the imposition of different categories of thought and perception upon others. In order to turn my dissertation into a fair exchange, I invite you to defend and challenge my reasoning where due, in order to provide a better and more just exchange for yourself and all the stakeholders involved.

### **5.6. Suggestions for further research**

Finally, if I were to summarize in one sentence the core personal finding of my dissertation it would be: The world is not what you or I think it is. Consequently, our values and our wealth are not what we think they are. We are not what we think we are. The wealth of the world's billionaires and their sources are not what we think they are. The policies of economic freedom do not have the effects we think they have. *Errare humanum est*. The limits of our understanding and beliefs underscore the importance of dialogue and self-correcting mechanisms. There is always room for taking personal responsibility and making this world a better place. With these words I hope you do not hesitate to take this necessary responsibility, whatever it may be and become, for the benefit of yourself and your stakeholders.

As a whole, this aggregate-level study of a new category of entrepreneurs in the material extreme, the billionaires, has raised a number of interesting new questions. Further studies are called upon in order to even better understand the special demands and characteristics of such large-scale entrepreneurship. These studies can include among others:

- 1) Cross-industry studies on billionaires in select industries, such as finance, IT, beverages and retail. These studies could help expand our understanding of the industry-specific drivers enabling the creation of extreme private wealths.
- 2) Country-specific and economic-area-specific studies of billionaire wealth formation in e.g. Russia, Sweden, China, the US, Japan or the EU, and the BRIC countries could help identify country-specific and economic-area-specific drivers and characteristics affecting billionaire wealth formation and dissolution.
- 3) Case studies of select billionaires could further provide more insight into the special characteristics and life trajectories of chosen billionaires. Beyond the interests of economic history of these individuals and their families, these studies would surely provide interesting material for continued research on exceptional entrepreneurial characteristics and life trajectories as well as critical decisions and formative events.
- 4) Studies of select categories of billionaires, based on gender, education, age and religious beliefs, could provide even more interesting perspectives on the characteristics of the billionaire population.
- 5) Further studies of the billionaires and their interdependent relationships with societal, political and institutional development overall would also be of particular interest.

In addition to the empirical focus on billionaires there are also significant opportunities for continued theoretical studies within stakeholder theory and different complementary axiologies. Overall, the primary unit of analysis for this dissertation has been the individual. The choice to focus on individuals, billionaires in fact, as opposed to companies or nations, has been a deliberate value judgment with a specific intention. The emphasis of much economic research has gradually been shifting towards smaller units of analysis: from nations to companies, and likewise down to individuals. I believe however that the shift has been incomplete, and additional theoretical work is called for in the domain of stakeholder theory of the individual as well as different axiologies at large. Most of business school curricula and research today is still primarily focused on the unit of analysis of companies or nations. Subjects such as management, finance, marketing, and accounting continue to keep their primary focus on the unit of analysis of the company. Individuals are primarily of instrumental concern. Why couldn't these subjects be taught also from the perspective of the individual, i.e. the management, finance and accounting of the individual? Furthermore, it serves to note, as Freeman (2008:163) so well points out, that much of the theories taught in business schools are based on "...partial theories of human beings which are often derived from the separation fallacy (such as agency theory)". From this outset, this dissertation has taken a different stance, based on an intrinsic consideration of individuals and their forms of

value creation. Further research and related education initiatives based on the unit of analysis of the individual is called for.

In this dissertation, we have discussed economic, political, social and individual freedom and responsibility. As a complement to these, I further call for research on the topic of academic freedom and responsibility. What is really meant by academic freedom and how do our institutions support it? What are the existing power mechanisms affecting what positions are filled, research projects are initiated, grants are given, articles are published, students are taught and knowledge is shared? Could there be a greater plurality of values and institutions and how could society benefit from them better?

Finally, in an attempt to conclude my dissertation I would paraphrase the title of Karl Popper's (1994) book "All Life is Problem Solving" with the insight that "All life is exchanging". We live in the midst of change, in which we are left to try to make the best of things through different forms of conscious, subconscious, voluntary and involuntary exchanges. In sum, this dissertation has hardly solved the problem of "What explains the rise and fall of billionaire wealth in the world?" It has rather grown towards initiating a structured exchange of ideas to understand the question and the role of the inquiry in further depth, with an acute awareness of the fallibility of our knowledge. Consequently, I leave you with a sincere expression of hope that my work has been able to at least somehow produce a mutual exchange of beliefs for the better.

## **5.7. Epilogue**

Finally, I would like to conclude my dissertation with a favorite story of mine. This story has come to serve as a summary of my perception of what this dissertation, its language and my outlook on life are ultimately all about.

This is a story that grew out of my visit to Barcelona in June 2011, where "The First Interdisciplinary Conference on Stakeholder Theory, Resources and Value Creation" was taking place. The story was inspired by the discussions I had a chance to take part in with Ed and other fascinating stakeholder theorists like Sandra, Jeffrey, Robert and many others, together with the fascinating architecture of Gaudi and maybe a little bit of wine thrown into the mix...

The story takes us back a few hundred years to an apple tree and Newton. Newton allegedly sees the falling of an apple from the tree and concludes that it is falling to the ground due to gravitation. The physical interpretation of the event has since been developed by Einstein, Feynmann, and a whole host of luminaries who have enhanced and enriched our understanding of the world around us. As my colleagues and I were discussing, I suddenly envisioned the flow of events from a different, complementary perspective. I saw the event from the perspective of the tree as a part of nature. I was struck by the organic perspective of the apple falling as a result of the tree nurturing its apple, maturing it, resisting gravity, until it was ripe enough to let it fall and start life all over again. This perspective seemed to summarize the disparate pieces of the puzzle of my understanding of language, science and the world as we know it. It provided an *organic view of language and understanding*. A perspective where the words we share together are grown from nature to serve nature. In my eyes, language was no longer a medium for transmitting thoughts and emotions- a “tool” or “mirror” for the reflection of reality. Language was a part of nature itself. This perspective underscored the process of *natural exchange* for me. Natural exchange is in my view a continuous conscious and unconscious exchange or mutual change between the different parts of a living whole.

In what way is this natural exchange perspective relevant? I believe it singles out a perspective of the world and the flow of physical and perceptual events that serves to open us up to the nature within us and the fact that each of us co-exist as parts of nature. This natural exchange perspective further underscores the value of understanding all forms of exchanges large and small, including even smaller units of analysis than the individual, all the way on the level of cellular and molecular exchange. This led to a perceptual change of my perception itself on a fundamental level. Hereby, my organic outlook has come to depart from the narrower social constructionist perspectives of science. While these social constructionist perspectives may describe the role of our social life in the development and maintenance of human understanding, the natural exchange perspective emphasize further the role of natural and biological realms as essential parts in sustaining our knowledge and existence. Ultimately, this perspective has attracted me to regard the *purpose of science as one of mutual healing of our misguided beliefs of each other, life and the world around us*. Furthermore, I have come to believe in the value of extending the Hippocratic Oath and its attendant core beliefs and respect for life beyond medicine to all forms of human sciences and action. For social science scholars it highlights for me our responsibility to

be a part of enabling healthier organizations and societies for people to grow and prosper.

On a personal level, I have only just begun my exploration of the effects of this newly-found perspective. As of yet, this has not led to any radical shifts in lifestyle from the city to the wilderness, but rather an appreciation of and sensitivity to nature within and among other people. The natural exchange perspective has further given me a different and organic perspective on my own, as well as other people's thoughts and values. I once encountered an old saying that the path to supreme happiness is to become a gardener (note: not a billionaire). Fortunately, this organic worldview is one way of becoming the gardener, regardless of profession or social setting, by thinking of oneself and others as a part of nature...and what an inspiring amount of work lays ahead of us to heal and make the world better for all of us.

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**ESSAY 1: ECONOMIC FREEDOM AND ENTREPRENEURSHIP IN THE EXTREME****Abstract**

This paper discusses the role of government policy on entrepreneurial value creation. The findings within complement the existing studies on economic freedom by exploring its effects on billionaire wealth creation. The empirical study finds positive relationships between economic freedom, selected subcomponents of economic freedom and market capitalization of listed companies on the one hand and billionaire wealth per capita in a country on the other. Conclusions highlight the value of further investigating further the effects of government policies promoting economic freedom on different stakeholder groups and individual value creation as a whole.

## Introduction

One of the major contributions to the existing literature on entrepreneurship is William Baumol's (1990) article on productive, unproductive and destructive entrepreneurship. Since its publication, it has generated an abundance of research on the effects that institutions have on the quality of entrepreneurship (Baumol, 1993, 2002; Boettke, 2001; Boettke and Coyne, 2003; Coyne and Leeson, 2004; Kreft and Sobel, 2005; Ovaska and Sobel, 2005; Sobel, Clark, Lee 2007; Sobel, 2008). Baumol's article claims that the supply of entrepreneurs and the nature of their objectives are relatively constant across societies and over time. What becomes essential is the type of entrepreneurship that prevails. Baumol distinguishes between *productive, unproductive and destructive types of entrepreneurship*. According to his theory, entrepreneurs can choose to engage in productive activities, innovating, discovering and arbitraging to increase efficiency and value for society. By the same token, however, they can also engage in unproductive and destructive activities, such as the manipulation of the political and legal processes or organized crime. The decision to devote effort to either activity is influenced by the corresponding rates of return from these activities. Baumol's main hypothesis is that the quality of the prevailing economic, political and legal institutions or the 'rules of the game' determine whether entrepreneurs engage in productive or unproductive activities from the perspective of national welfare.

The role of government policy is central for affecting both the institutions in society and the type of entrepreneurial value creation that is being promoted. However, the fundamental questions of - if and how governments are able to influence entrepreneurial activity positively - is far from being resolved. Whether the government policy itself is productive, unproductive or destructive thus becomes a relevant question (Minniti, 2008). Historically, the scope and type of governmental involvement has shifted over time and across societies. For instance, Audretsch and Thurik (2001) point out that during the post-WWII era there was considerable concern about what to do about the existing firms and industrial structure, whereas little attention was paid to where they came from and where they were going. While public ownership, regulation, competition policy and antitrust varied across countries, the singular policy issue of focus was: *How to restrict and restrain the power of the large corporation?* Audretsch (2004) demonstrates that a new policy approach has emerged that *focuses on enabling the creation and commercialization of knowledge, such as encouraging R&D, venture capital and new firm start ups*. Sobel (2008) in turn tests Baumol's work and finds

empirical evidence that increased economic freedom leads to productive entrepreneurship and that decreased economic freedom leads to unproductive entrepreneurship. Sobel argues that government programs all too often encourage entrepreneurial individuals to devote their efforts towards figuring out how to obtain the transfers or subsidies, rather than devoting those efforts toward satisfying consumers or creating wealth. Sobel concludes that rather than focusing on expanding government programs such as subsidized loans and workforce education, the better path is through *institutional reform that constrains or minimizes government's role and lowers the return on unproductive types of entrepreneurship.*

However, a great deal of analysis is needed to more comprehensively understand the effects of governmental entrepreneurship policies. This paper argues that economic freedom itself must be understood not only on an aggregate level as done by much of the previous discussion, but also with regard to its effects on and profitability for different stakeholder groups. The empirical focus of this study is on the effects of economic freedom on one little-researched group of stakeholders or entrepreneurs, the world's billionaires. Somewhat surprisingly, very little research has been done to comprehensively understand the existence of extraordinary wealth or billionaires in societies. A few single country studies exist concerning extraordinary net worth individuals, and one cross-country study on billionaires has been completed. The effects of the degree of competition and monopoly position within industries on extraordinary individual wealth has been studied by Siegfried and Roberts (1991) for the UK, Bliz and Siegfried (1992) for the USA, Siegfried and Round (1994) for Australia, and Hazeldine and Siegfried (1997) for New Zealand. All these country studies found that fortunes were made in a variety of different sectors. Furthermore, industries classified by economists and economic historians as competitive had an unexpectedly high frequency of vast individual fortunes in these countries. Neumayer (2004) in turn carried out a cross-country study of billionaires based on the average number of billionaires from 2001-2003. His findings indicate that a fiscal burden, greater extent of government intervention, greater extent of governmental inference with prices and wages do not have a negative effect on the number of billionaires. His study also finds that openness in trade is conducive or at least not detrimental to the accumulation of great wealth. He further concludes that the protection and enforcement of private property is essential and that it is easier to accumulate great wealth in richer rather than poorer countries. However, the introductory nature of the study, the usage of average values over the years, the somewhat arbitrary choice of explanatory variables,

and the usage of only sub-indicators of economic freedom called for a more comprehensive panel study (longitudinal cross-country study) in order to investigate the effects of economic freedom on billionaire wealth in further depth.

As a whole, the effects of governmental policy and economic freedom are highly relevant with regards to the value creation of its citizens. Governmental policies have both direct and indirect effects on its citizens, e.g. by affecting the taxation, employment and entrepreneurial opportunities available. The effects of economic freedom on billionaires as a stakeholder group are particularly interesting to study, due to their relatively high impact on society and other stakeholders. The stakeholder-based perspective furthermore naturally complements the debate as to whether entrepreneurship or governmental policies are productive, unproductive or destructive with a more detailed understanding of the policy effects on particular stakeholder groups.

The paper is structured as follows. First, the theoretical background concerning institutions and economic freedom in particular are reviewed. Second, based on this the hypotheses concerning the relationship between economic freedom and billionaire wealth are derived. Third, the data, methods and results of the empirical study are presented. And last, the findings of the study and possible areas of future research are discussed.

## **Theoretical Background**

Baumol's (1990) distinction between productive, unproductive and destructive entrepreneurship, together with North's (1990, 2005) theory of institutions provide one of the most effective and widely applied frameworks for evaluating entrepreneurship policy (Gohmann, Hobbs, McCrickard, 2008; Manolova, Eunni, Gyoshev, 2008; McMullen, Bagby, Palich, 2008; Minniti, 2008). Overall, policy discussions have focused on the idea that governments seeking to stimulate their economies should reduce constraints on entrepreneurship (Acs, Audretsch, Braunerhjelm and Carlsson, 2004; Minniti, Bygrave, Autio, 2006). North (1990) provides a framework integrating the emergence of institutions with the development of organizations and entrepreneurs. The institutional environment determines the formal and informal 'rules of the game' in society, places constraints on human action and possibly reduces

uncertainty by adding a stable, though not necessarily efficient, structure. The changes in institutional environment alter the incentives for entrepreneurs. Thus the institutions become essential in either encouraging productive or discouraging unproductive or even destructive entrepreneurial behavior.

However, at the same time the debate of what is actually meant with the notions of an entrepreneur and entrepreneurship is far from over (Baumol, 1968, Brenkert, 2002; Gartner 1988, 1990, 2001; Hebert & Link, 1989; Lazear, 2005). Many definitions continue to co-exist. Gartner (2001:35) for instance identifies a broad range of topic areas within entrepreneurship studies such as new venture creation, firm growth, venture capital, corporate entrepreneurship, management succession, family business and others. Mises (1996) in turn defines entrepreneurship as a characteristic that can be found anywhere and at any point in time. He continues by arguing that capitalists, self-sufficient landowners and laborers are all essentially entrepreneurs of sorts. A capitalist among others always runs the risk of his losing funds, as there is no such a thing as a perfectly safe investment. Hence, all citizens may ultimately be seen as subjects of governmental entrepreneurial policies affecting institutions. In this paper, I will follow Mises definition of entrepreneurship in order to study the world's billionaires.

Ever since the time of Adam Smith, if not before, economists and economic historians have argued that the freedom to choose and supply resources, competition, trade and secure property rights are central ingredients for economic progress (de Haan and Sturm, 2000:217). Contemporary empirical studies have since suggested that a positive relationship exists between economic freedom and larger per capita incomes, as well as higher rates of economic growth in a country (Farr, Lord, & Wolfenbarger, 1998; Berggren, 2003; Cole 2003; Grubel 1998, de Haan & Sturm 2000; Gwartney, Lawson, Holcombe, 1999; de Haan and Siermann, 1998; Heckelmann, 2000; Powell, 2003). As such, the policies of economic freedom have been primarily judged based on their ability to promote economic values on an aggregate level. However, additional studies have also been made that have examined how economic freedom indices correlate with a range of different factors such as self-perceived well-being, health indicators, migration, investment performance, industry-specific growth, new business creation, level and type of entrepreneurship, entrepreneurial motivation, as well as income inequality (Carter, 2006; Eposto and Zaleski, 1999; Norton, 1998; Melkumian, 2004;

Ayal and Karras, 1998; Dawson, 1998; Ovaska and Sobel, 2005; Berggren, 1999; Grubel, 1998; McMullen, Bagby, Palich, 2008; Scully, 2002; Sobel, 2008).

The debate on the effects of economic freedom on income inequality is of particular interest since it explores the effects of economic freedom on a disaggregated level. The extant research has nevertheless provided inconsistent results. Some studies argue that economic freedom diminishes and others that it increases income inequality measured at different times and by different versions of the GINI index (Carter, 2006; Berggren, 1999; Scully, 2002; Ashby and Sobel, 2009). This study at hand approaches the phenomena somewhat differently, since it is exploring the effects of economic freedom on a specific stakeholder group, rather than as a composite measure of societal wealth distribution. It does not primarily seek to take part in the debate on a possible trade-off between economic freedom and income equality, but is foremost interested in enhancing our understanding of the effects of economic freedom on the chosen stakeholder group of billionaires. Whose interests do governmental policies serve, and how effectively and to what extent, are interesting questions in themselves. However, the effects of economic freedom on billionaires and other stakeholder groups are herein seen as far more complex than just a question of distributive justice. The effects of billionaire prosperity may or may not be a result of a loss for other stakeholder groups. A full understanding of the dynamics is hardly obtainable, especially due to the limited knowledge in the field at this date. As such, this study aims to add to existing research with just a small, introductory piece of the puzzle on individual value creation in the extreme. In the following, the paper will continue to develop a series of hypotheses, empirically investigate them and discuss the effects of economic freedom on billionaire wealth in further depth.

## **Economic Freedom and Billionaire Wealth**

The empirical study aims to explore the effects of economic freedom on billionaire wealth. In an attempt to try to understand some of this interesting relationship, the following examines the effects of economic freedom and all of its subcomponents on billionaire wealth in turn. Altogether, 11 hypotheses are developed concerning the relationship between economic freedom and billionaire wealth.

## **Economic Freedom**

Today there is an ongoing debate surrounding the alternative definitions of economic freedom and how to measure them. Among some of the most influential views on the matter are those of the Fraser Institute, the Heritage Foundation/Wall Street Journal and Freedom House. Each has different emphases on property rights, individual and collective freedom and the distinction between economic freedom and other forms of freedom, among others (Haan and Sturm, 2000). The two most developed indices include the Fraser Institute's Economic Freedom of the World (EFW) index and the Heritage Foundation/Wall Street Journal Index of Economic Freedom (IEF). However, it may be noted that other attempts exist as well (Spindler and Still, 1991; Scully and Slottje, 1991). A comparison of the two measures shows that the Fraser (EFW) measures are dominated by outcome variables, whereas the Heritage (IEF) measures are primarily policy variables that governments can control (Heckelman, 2000). Hence, by valuing more pragmatic variables the Heritage (IEF) measure was seen as a natural choice for this study.

The Heritage Foundation measure of economic freedom is a composite index of ten measures of country-specific economic freedoms, including Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property rights, Freedom from Corruption and Labor Freedom. Combined, they measure the overall economic freedom of the country. Higher levels of economic freedom increase the profitability for actors to engage in productive forms of entrepreneurship, whereas, lower levels of economic freedom increase the profitability for actors to engage in unproductive forms of entrepreneurship. The findings of previous single-country studies on high-net-worth individuals by Siegfried and others indicate that a somewhat surprising degree of high-net-worth individuals are found in sectors judged as competitive (Siegfried and Roberts, 1991; Bliz and Siegfried, 1992; Siegfried and Round, 1994; Hazeldine and Siegfried, 1997).

It is particularly interesting that such large individual wealth has been amassed in industries in which extraordinary earnings should attract new entrants and erode margins. One would expect that individuals that reach extraordinary amounts of wealth would be rapidly imitated. Nevertheless, vast individual fortunes continue to exist in competitive industries as well. The studies identify several possible explanations like considerable ex-ante risk and uncertainty, innovations, return on business skills,

strategic resources, and market disequilibria. As such, industry competitiveness is not seen to hinder the amassment of large individual wealth. On the contrary, their findings indicate the existence of unexpectedly high degrees of extreme individual wealth in these industries. Consequently, economic freedom, as a broader measure of the competitiveness of a nation, could also be expected to yield a positive relationship with billionaire wealth. Neumayer's (2004) cross-country study on billionaires using Forbes data provides some initial indication of such a positive relationship, i.e. the higher the degree of economic freedom the higher billionaire wealth in a country. Nevertheless, as Neumayer's (2004) study indicates, the relationship is not necessarily consistent on all measures of economic freedom. His findings that fiscal burden, a greater extent of government intervention and a greater extent of governmental interference with prices and wages did not have a negative effect on the incidence of great wealth do not indicate a straight-forward positive relationship between economic freedom and billionaire wealth. On the other hand, his findings on private property, openness in trade and overall wealth in a country support such a positive relationship. As such, it is to be expected that the underlying fundamentals for such extreme value creation may be multifaceted and complex. Nevertheless, based on the previous studies as a whole, it is also to be expected that productive forms of entrepreneurship will prevail and a positive relationship exists between economic freedom and billionaire wealth. We have therefore put forward the following hypothesis.

**Hypothesis 1:** There is a positive relationship between overall Economic Freedom and the aggregated billionaire wealth per capita of a country.

### **Business Freedom**

Business freedom is a quantitative measure of the ability to start, operate, and close a business. It serves as an indicator of the amount of regulation and efficiency of government in the regulatory process. The measure itself is based on data from the World Bank's "Doing Business" study and consists of 10 equally-weighted factors including the process, time and cost measures of starting a business, obtaining a license and closing a business (Gigot, 2009). The more government imposes regulations on business, the more complex the environment is for entrepreneurs. While licensing new companies may take as little as a few hours in some countries, like Hong Kong, in others it may be a notable burden (McMullen & al., 2008). The actual relationship of

the speed and ease by which a business is founded in a country and the country's economic performance is, however, a subject of a continued discussion (Djankov, Porta, Lopez-de-Silanes & Shleifer, 2002; Stel, Storey & Thurik, 2007). Nonetheless, on the whole some governments are more transparent and consistent in their regulatory activities, whereas others create unpredictable business environments with arbitrarily enforced regulations and bureaucratic corruption. The effects of adverse regulation and inefficiency serve as a burden to productive entrepreneurial activity throughout the entrepreneurial process from initial entrepreneurial motivation to running the businesses of billionaires. From the perspective of billionaires, an increase in business freedom may actually be seen to increase competition. However, as Neumayer's (2004) cross-country study on billionaires and Siegfried et al.'s (e.g. 1991, 1994) single country studies on high-net-worth individuals indicate, competition does not necessarily prevent the accumulation of extraordinary individual wealth. In sum, we put forward the following hypothesis.

**Hypothesis 2:** There is a positive relationship between Businesses Freedom and the aggregated billionaire wealth per capita of a country.

### **Trade Freedom**

Trade Freedom is seen to refer to the degree with which an economy is free from governmental restrictions on the flow of foreign commerce (Haan & Sturm, 2000). The Trade Freedom Index is a composite measure of the absence of barriers that affect a country's imports and exports of goods and services. The measure is based on the absence of trade-weighted tariffs and non-tariff barriers, e.g. quotas and licensing requirements (Gigot, 2009: 442). Increases in trade freedom support productive forms of entrepreneurship. The impeding of imports in turn leads to supporting inefficient national production. Protectionist policies curb new entrepreneurial action from seizing profit possibilities. Reciprocated protectionist policies make it in turn difficult for entrepreneurs to enter other markets as well. Such governmental restrictions on the flow of foreign commerce may be seen as a valuable protection of existing unproductive forms of entrepreneurship. Neumayer's (2004) results on the Heritage Foundation indicator measuring openness in trade indicate that it is actually conducive or at least not detrimental to the accumulation of billionaire wealth. Trade openness as such may lead to greater access to the necessary resources to sustain competitiveness over time

for all parties involved. In terms of billionaire wealth, we therefore put forward the following hypothesis.

**Hypothesis 3:** There is a positive relationship between Trade Freedom and the aggregated billionaire wealth per capita of a country.

### **Fiscal Freedom**

Fiscal Freedom refers to the absence of burdensome tax rates with respect to a nation's GDP (Haan & Sturm, 2000). The fiscal freedom measure consists of three equally weighed quantitative factors, i.e. the top tax rate of individual income, the top tax rate of corporate income and the total tax revenue as a percentage of GDP (Gigot, 2009). However, Neumayer's (1994) study does not find a negative relationship between fiscal burden and the existence of billionaires. Higher taxes in themselves may be essential for an effective redistribution of wealth and equal opportunity for individual value creation and wealth. Nevertheless, at the same time taxes are seen to have a direct negative effect on entrepreneurial activity throughout the entrepreneurial process. It does not only diminish the return from the entrepreneurial activity, but it also diverts competition from the private sector to subsidizing the public sector, which can limit the range of entrepreneurial opportunities. We therefore put forward the following hypothesis.

**Hypothesis 4:** There is a positive relationship between Fiscal Freedom and the aggregated billionaire wealth per capita of a country.

### **Freedom from Government**

This component considers the level of government expenditure as a percentage of GDP. Government expenditures include both consumption and transfers. As some level of government expenditures represents true public goods, an ideal level of spending is expected to be greater than zero. However, for benchmarking purposes, the scale for scoring government size begins with zero and progresses in a non-linear fashion. Governments with no public goods are expected to be penalized by lower scores in property rights and financial freedom, for example. Increases in government expenditure are seen to directly limit opportunities for productive entrepreneurship.

Yet on the hand, while a larger size of government may be a hindrance for entrepreneurship at large, it may provide special opportunities for unproductive entrepreneurship with inefficient and corrupted transactions with government bodies. From the perspective of large-scale entrepreneurship conducted by the billionaires, large government expenditure may easily constrain the availability of opportunities for such enterprises for them. Neumayer's (1994) study does not find a negative relationship between government intervention and the existence of billionaires. Obviously, both productive and unproductive entrepreneurial opportunities are affected by governmental involvement. Nevertheless, on the whole, we put forward the following hypothesis.

**Hypothesis 5:** There is a positive relationship between Freedom from Government and the aggregated billionaire wealth per capita of a country.

### **Monetary Freedom**

In Keynes' (1919: 200) words "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens." Monetary Freedom is a measure of price stability, including inflation and price controls. The score for the Monetary Freedom Index is based on the weighted average inflation rate for the most recent three years and a qualitative assessment of price controls. Inflation is often seen to distort prices, misallocate resources, and undermine entrepreneurship by complicating the assessments of investment profitability. On the other hand, from a billionaire wealth perspective, inflation may also be seen to increase the size of their wealth. However, as the billionaire wealth is denominated in USD, inflation in one country may be expected to be offset with the relative weakening of the currency of the country in question. Nevertheless, a high US inflation rate and a weak USD may also impact the size of the billionaire wealth in the world. The impact of inflation is obviously multifaceted. However, on the whole, we put forward the following hypothesis.

**Hypothesis 6:** There is a positive relationship between Monetary Freedom and the aggregated billionaire wealth per capita of a country.

### **Investment Freedom**

Investment freedom is concerned with the overall investment environment of a country. It reviews each country's policies toward the free flow of investment capital (Gigot, 2009). The questions qualitatively examined include the country's investment laws and procedures, the treatment of and restrictions on foreign investments (FI) and access to foreign exchange. This component is based on a scale from 0-100 with ten defined levels of investment freedom. From a productive entrepreneurship perspective increased investment freedom allows for a more competitive market place, whereas, from an unproductive perspective, increased investment freedom leads to greater competitive threats to existing businesses. Based on the high degree of individual wealth in competitive industries witnessed by Siegfried et al. (1991, 1994), it is expected that investment freedom also be positively related to billionaire wealth across countries. Hence, we put forward the following hypothesis.

**Hypothesis 7:** There is a positive relationship between Investment Freedom and the aggregated billionaire wealth per capita of a country.

### **Financial Freedom**

Financial freedom is concerned with banking security and its independence from government control. The questions qualitatively examined include the extent of government regulation of financial services, the difficulty of opening and operating financial services firms, and government influence on the allocation of credit. This component is based on a scale from 0-100 with ten defined levels of financial freedom. (Gigot, 2009: 447). In line with other forms of economic freedom, we put forward the following hypothesis.

**Hypothesis 8:** There is a positive relationship between Financial Freedom and the aggregated billionaire wealth per capita of a country.

### **Property Rights**

The Property Rights component is concerned with the ability of individuals to accumulate private property and the effects of laws and enforcement by the state. It

measures the degree to which government guarantees private property, the court system enforces contracts, and the justice system punishes unlawful confiscation of property, as well as the existence of corruption and expropriation. This component is based on a scale from 0-100 with ten defined levels of property rights protection. Neumayer (2004) finds in his study that there is a positive relationship between property rights and the existence of billionaires. He further finds a negative relationship between the number of years an economy has been under communist rule and the existence of billionaires. Hence, we put forward the following hypothesis.

**Hypothesis 9:** There is a positive relationship between Property Rights and the aggregated billionaire wealth per capita of a country.

### **Freedom from Corruption**

Freedom from Corruption is concerned with the overall corruption of a country. It includes levels of legal, judicial and administrative corruption (Haan & Sturm, 2000). Increases in corruption weakens the rule of law and, gradually replaces it with the rule of man. Rule of man leads to unpredictable and arbitrary enforcement of laws, rights, contracts and the like, which undermines the stability and reliability of a country's institutions (McMullen & al., 2008:884). This measure is primarily based on the Transparency International's Corruption Index (CPI), complemented with qualitative information from other public sources. The component is based on a scale from 0-100. Obviously the effects of corruption on billionaire wealth may be multifaceted based on different forms of productive or unproductive entrepreneurship. However, based on an expectation of the existence of more productive forms of billionaire entrepreneurship, we put forward the following hypothesis.

**Hypothesis 10:** There is positive relationship between Freedom from Corruption and the aggregated billionaire wealth per capita of a country.

### **Labor Freedom**

Labor Freedom is a quantitative measure that looks into the legal and regulatory framework of a country's labor market. It is based on six equally-weighted quantitative factors considering minimum wage, hiring, rigidity of hours, firing, notice periods and

mandatory severance pay. The data is primarily based on the World Bank's "Doing Business" Study. From a productive perspective of entrepreneurship, increased labor freedom generates positive expectations. A higher degree of labor freedom is also herein seen to increase the degree of billionaire wealth due to favoring rules for their business. We therefore put forward the following hypothesis.

**Hypothesis 11:** There is a positive relationship between Labor Freedom and the aggregated billionaire wealth per capita of a country.

## **Data and Methods**

The dependent variable explained in the study is the *aggregated wealth of billionaires per capita in a country*. It serves to note, that Neumayer's (2004) study on billionaires uses the average number of billionaires in a single country during the years 2001-2003. In this panel data study (cross-country and longitudinal) the dependent variable is the aggregated wealth of billionaires, i.e. both the number of billionaires and their wealth, in relation to the size of the population. Thus not only the number but also the total wealth of billionaires over time in relation to the population size is the focus of the research. The aggregated wealth of billionaire per capita measure takes further into account that the amount of billionaires wealth in a country is dependent on the size of the population of the country. As such, we have constructed a relative measure. Neumayer's (2004) study finds that population size is a significant explanatory variable. Hence, it seemed natural to account for population size already in the dependent variable in this study.

The billionaires studied here include all individuals whose wealth exceeds 1 billion USD, excluding monarchs and heads of state. Forbes Magazine classifies these individuals as either self-made or inherited. The self-made billionaires make up 65% of the 2009 billionaire population. However, the whole distinction between self-made and inherited is clearly challenging. Collins, Lapham and Klinger (2004) raise a valid concern against the notion of a "self-made man", since much of entrepreneurial achievements unavoidably rests on others and the institutional environment in general. For the purposes of this panel study, a cross-country dataset of 15 years, from 1995 to 2009, collected by Forbes Magazine on the world's billionaires is used. Forbes

Magazine is currently the leading authority on following the wealth of the world's richest people. They have been collecting the data on an annual basis since 1987. The data are given on an accuracy level of 0,1 billion dollars. Altogether 50 countries with billionaires in 2009 and sufficient macro-economic data were included in the analysis. The regressions are based on panel data, consisting of 15 years of observations per country and hundreds of billionaire observations per year. The limited reporting by Forbes on billionaire data during 1997-2000 is not expected to influence the results. Altogether the regression included 50 countries, each of which had billionaires in 2009, as reported by Forbes Magazine. In addition to these, billionaires have existed in the following countries Bahrain, Belize, Bermuda, Brunei, Cuba, Ecuador, Iraq, Lichtenstein, Macau, Monaco, Oman, Peru, Qatar and Serbia during 1995-2009. Lebanon, Monaco, the United Arab Emirates and Taiwan were excluded from the analysis due to limited availability of data. For further information about the countries included, see Appendix 1. The use and interpretation of the secondary data has been complemented with qualitative background interviews for the article made at Forbes Magazine in October 2008.

The independent variables used are based on the Heritage Foundation/Wall Street Journal Index of Economic Freedom, and UN human development and World Bank macro-economic indicators. The Heritage Foundation/Wall Street Journal annual Index of Economic Freedom (IEF) is seen to measure economic policies that promote individual decision-making, market-based pricing of goods, labor and capital, limited and selective government involvement as well as openness to international trade and investment (Gigot, 2009). The index itself was seen as a particularly suitable measure due to the availability of data for each of the subcomponents of the measure and the ability to affect the measured variables through associated policy decisions. The Heritage Foundation/Wall Street Journal Index of Economic Freedom is a composite index of ten measures of economic freedoms, which includes Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property rights, Freedom from Corruption and Labor Freedom.

The selected control variables included the UN Human development indicator are the market capitalization of listed companies per capita and inflation. Human development in general is concerned with the process of enlarging people's choices and enhancing their capabilities. It is a broad concept with as many dimensions as there are ways of

enlarging people's choices (Klugman, 2008). It includes developing measures of economic growth into a more comprehensive measure of societal progress. The UN Development indicator is constructed by including three main aspects of development in a country: life-expectancy, education and GDP. The measure includes quantitative measures of life expectancy of birth, the adult literacy rate, gross enrolment ratio and GDP per capita (PPP US\$) in a country. The data for this indicator were available for the years 1995, 2000, 2003-2006. Furthermore, the effect of market capitalization of listed companies on billionaire wealth was tested in order to gain wider understanding of changing market conditions. This is also motivated by the sizeable portion of billionaire wealth held in publicly-listed companies. The market capitalization of listed companies per capita value is used in its logarithmic form in order to reduce problems with non-normality and non-linearity. Inflation was further tested as an independent variable influencing billionaire wealth, even though it is a core component of the Monetary Freedom measure. The selected data was lagged and extrapolated to match the annual data available on billionaire wealth.

### The Model

The model itself is constructed to explain billionaire wealth per capita based on economic freedom, its subcomponents and a number of control variables. As such, the first hypothesis is tested with selected control variables based on the following model:

$$BW_{it} = \alpha_i + \beta_1 EF_{it} + \beta_2 HDI_{it} + \beta_3 \ln MCAP_{it} + \beta_4 INFL_{it} + \varepsilon_{it},$$

where

BW= Billionaire Wealth per capita,

EF= Economic Freedom,

HDI= UN Human Development Indicator,

LnMCAP= Logarithm of Market Capitalization of Listed companies per capita,

INFL=Inflation,

$\varepsilon$ = Error term,

i = 1,.....,n countries,

t = 1,.....,T years.

The subsequent hypotheses (2-11) test the same formula except for replacing the Economic Freedom (EF) with the sub-indicators of Economic Freedom, i.e.

BF=Business Freedom,

TF=Trade Freedom,

FF=Fiscal Freedom,

FG=Freedom from Government,

MF=Monetary Freedom,

IF=Investment Freedom,

FF=Financial Freedom,

PR=Property rights,

FC=Freedom from Corruption,

LF=Labor Freedom.

The regression is based on panel data. There are several alternative models for dividing panel data regressions. However, the main logic is the same: the models relate a dependent variable to explanatory variables and the coefficients are interpreted as marginal effects. First, a standard *pooled regression* is estimated. Second, a *fixed effects* model that contains dummy variables for each country is estimated. Third, a *random effects* model with general least-squares (GLS) methods is estimated. Formally, these are statistical tests of a null hypothesis that  $\beta = 0$  against  $\beta \neq 0$  for the regression coefficients. As a whole, the research includes the testing of 11 hypotheses by conducting 33 regressions; based on three different statistical tests, using pooled, fixed and random effects models. The expected effects of Economic Freedom and its subcomponents on billionaire wealth per capita are summarized as follows by Figure 1.

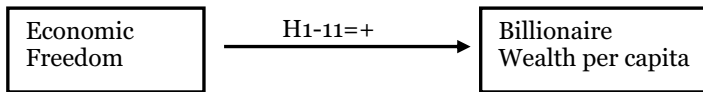


Figure 1. Summary of research hypotheses

**Control variables:** UN Human Development Indicator, Market capitalization of listed companies per capita and inflation

## Results

A pooled regression showed no significant relationship between aggregated billionaire wealth per capita and the explanatory variables. However, the pooled regression does not account for country-specific variations and treats the data as belonging to one single individual (Koop, 2008). Further tests were conducted, with the fixed and random effects models accounting for individual differences. The fixed effects model uses country-specific dummy variables, whereas the random effects model accounts for individual differences through differences in the error term. These turned out to suggest a significant relationship between aggregated billionaire wealth per capita in a country and the overall Economic Freedom, as well as the market capitalization of listed companies per capita. Excluding selected countries one at a time tested the robustness of the results. The results remained qualitatively the same, yet with somewhat lesser degree of explanation. For instance, the exclusion of United States gave non-significant results for economic freedom in a pooled regression. However, here the fixed effects model provided a coefficient value of 22,67\* (t-value: 1,80) and the random effects model gave a coefficient value of 25,6\*\* (t-value: 1,96) for economic freedom. The market capitalization coefficient remained on roughly the same level and significant in the tested models. Table 1 provides a summary of the overall results.

	Pooled model (OLS)		Fixed effects model (LSDV)		Random effects model (GLS)	
	Estimate	t-value	Estimate	t-value	Estimate	t-value
Economic Freedom	48.393	1.06	<b>26.547**</b>	<b>2.03</b>	<b>28.792**</b>	<b>2.20</b>
Human Development Index	-35.193	-1.36	28.479	0.86	-6.076	-0.33
Log market capitalization	<b>496.133***</b>	<b>2.99</b>	<b>411.091**</b>	<b>2.48</b>	<b>456.149***</b>	<b>6.98</b>
Inflation	0.729	0.88	0.578	1.35	0.542	0.90
Constant	<b>-3261.87*</b>	<b>-1.91</b>	<b>-6458.61**</b>	<b>-1.98</b>	<b>-4091.05***</b>	<b>-2.99</b>
No. of observations	730		730		730	
No. of individuals	50		50		50	

Notes: \*  $p < .10$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$

The table reports the Estimate and t-value for each explanatory variable in the three regression models.

Table 1. Summary of pooled, fixed and random effects regressions on billionaire wealth per capita and Economic Freedom, 1995-2009.

A particularly interesting finding is the strong positive relationship between billionaire wealth and market capitalization of listed companies per capita. In effect, many of the billionaires have substantial holdings in market-listed companies. Furthermore, many billionaires have particularly big holdings in the companies that made them rich in the first place. As such, the billionaires tend to remain relatively poorly diversified. Furthermore, the time period in question has witnessed an unprecedented increase in billionaire wealth in the post-communist countries in particular. The growth of billionaire wealth in these countries has largely been affected by the privatization of previously state-held properties together with the integration of these countries with the international capital markets.

In order to test the individual subcomponents of Economic Freedom, a total of 30 additional regressions were run. The fixed effects model gave significant positive results for Investment, Financial and Labor Freedom, i.e. the freer an economy is in terms of these criteria, the more billionaire wealth per capita in a country. The negative effect of Monetary Freedom indicated that an increase in inflation and price controls lead to an increase in billionaire wealth. Testing the robustness of the results with the exclusion of the United States still gave the same results qualitatively. The random effects model supported the results obtained from the fixed effects modeling, while further providing significant results for Business Freedom and Fiscal Freedom. Overall, in the fixed

effects modeling, the explanatory variables tend to become less significant due to the inclusion of country-specific dummies that themselves provide a part of the explanation. The results from the pooled model provided varied results on an aggregate level, while not accounting for country-specific differences. In the following, Table 2 provides a summary of the results of the different models per subcomponent of Economic Freedom.

	Pooled model (OLS)		Fixed model (LSDV)		Random model (GLS)	
	Estimate	t-value	Estimate	t-value	Estimate	t-value
Business Freedom	14.466	0.81	14.065	0.84	<b>12.977**</b>	<b>2.16</b>
Trade Freedom	17.977	0.88	-14.436	-1.20	-8.294	-0.969
Fiscal Freedom	<b>39.700**</b>	<b>2.12</b>	3.739	0.39	<b>15.076**</b>	<b>2.39</b>
Freedom from Government	11.184	0.88	4.438	0.45	6.766	1.52
Monetary Freedom	<b>-26.604**</b>	<b>-2.15</b>	<b>-17.433*</b>	<b>-1.96</b>	<b>-17.322***</b>	<b>-3.17</b>
Investment Freedom	9.265	0.68	<b>15.952**</b>	<b>2.09</b>	<b>12.726***</b>	<b>2.72</b>
Financial Freedom	9.484	0.73	<b>16.852*</b>	<b>1.77</b>	<b>14.684***</b>	<b>3.05</b>
Property rights	-2.579	-0.42	13.665	1.43	6.641	1.38
Freedom from Corruption	1.158	0.18	-1.059	-0.19	-0.805	-0.172
Labor Freedom	8.350	0.51	<b>117.695*</b>	<b>1.77</b>	<b>31.487*</b>	<b>1.73</b>
No. of observations	730					
No. of individuals	50					

Notes: \*  $p < .10$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$

The table reports the Estimate and t-value for each of the 10 regressions of the sub-component of Economic freedom.

Table 2. Summary of pooled, fixed and random effects regressions on billionaire wealth per capita and each of the subcomponents of Economic Freedom from different models, 1995-2009.

Altogether, the regressions supported hypotheses 1, 2, 4, 7, 8 and 11 when using the random and fixed effects models accounting for country-specific difference. Hence, a positive relationship was found between economic freedom, business freedom, fiscal freedom, investment freedom, financial freedom as well as labor freedom and billionaire wealth per capita. A significant positive relationship was not found for hypotheses 3, 5, 9 and 10, i.e. for trade freedom, freedom from government, property rights as well as freedom from corruption and billionaire wealth per capita. The

insignificant findings from property rights are particularly interesting. A possible explanation may be that the relatively high degree of billionaire wealth in ex-communist countries, and their still comparatively undeveloped property rights protection do not allow the relationship to become positive. The negative finding of hypothesis 6, concerning monetary freedom, indicates that a higher degree of inflation over time leads to higher billionaire wealth. This is understandable due to its inflating effects on billionaire wealth itself. The score for the monetary freedom index is based on the weighted average inflation rate for the most recent three years and a qualitative assessment of price controls. However, why the control variable for inflation itself does not show this result remains an open question. As such, it is of importance to consider critically the obtained results, which may be regarded as tentative at best. How much may individual subcomponents of economic freedom actually affect billionaire wealth creation? Economic freedom and its subcomponents unavoidably have some effect on billionaire wealth creation. However, their effects may not only be direct, but also much more multifaceted than one would expect. Research clearly needs to explore economic freedom and the range of its effects on various stakeholder groups in further depth.

## **Conclusions**

The empirical study finds positive relationships between economic freedom, selected subcomponents of freedom and market capitalization of listed companies and billionaires wealth in a country. According to the study an increase in economic freedom leads to an increase in billionaire wealth when accounting for country-specific differences. As such, on an aggregate level, the results lend support for billionaire wealth creation as arising on balance from more productive rather than unproductive forms of entrepreneurship. However, this does not exclude the existence of unproductive entrepreneurship and significant differences among countries. In the United States, Sweden and Russia, for instance, the sources and growth of billionaire wealth vary significantly. Japan provides an exceptional case due to its continuous decline on the world's billionaire list during the time period.

The study has focused on the relationship between the institutions of economic freedom and extreme wealth formation, assigning billionaire wealth per capita the role of the dependent variable. However, it should be recognized that the relationship between institutions and entrepreneurship should be expected to be interdependent

(Nyström 2008; Lee 1991; Clark & Lee 2006). Some billionaires may have substantial incentives and possibilities to influence institutions in socially unproductive ways against other entrepreneurs in order to protect their own interests. A deeper understanding of the interdependency between billionaires and the institutions of economic freedom is an area in need of further exploration.

As a whole, this study of billionaires on an aggregated level has also raised a number of interesting new questions. Further studies are called upon in order to better understand the special demands and characteristics of such large-scale entrepreneurship. Despite their large societal impact, interesting family business implications and their exceptional survivorship bias, billionaires have been a largely overlooked category of entrepreneurs. Neumayer's (2004) study, as well as Kets de Vries and Florent-Treacy's case study (2003a; 2003b) on the Russian entrepreneur Roustam Tariko, are notable exceptions. The case study of Roustam Tariko as an example of a Russian entrepreneur who would go on to become a billionaire is fascinating. As such, much additional research is called upon in order to understand individual value creation and their interdependence in societies in further depth. Cross-industry studies and individual case studies would be of particular value in order to enrich our understanding of this extreme phenomenon of entrepreneurship and its multifaceted effects on society.

Furthermore, it serves to note that the institutions of economic freedom are just one part of the institutional environment at large. For a balanced development of societies the discussion of the effects of economic freedom calls for a broader discussion of societal freedom in general. What other societal institutions are of relevance for entrepreneurial value creation? Furthermore, how are institutional policies to be developed to maximize not only entrepreneurial but individual freedom at large? What is the importance of political freedom and press freedom, as well as educational, healthcare and environmental policies for promoting the development of free and prosperous individuals? The UN Human Development indicator did not provide any significant results in these regressions. Nevertheless, the development of more comprehensive societal development (or social freedom) measures in order to complement the existing economic freedom measures for a more nuanced comparison of societies and their sources of wealth creation would be of special interest.

It also serves to note that our contemporary understanding of entrepreneurship goes well beyond the appreciation of purely economic values to include social and

environmental values. As Mitchell, Busenitz, Bird, Gaglio, McMullen, Morse and Smith (2007) deftly point out, the highly economic orientation of contemporary research has led many studies to equate entrepreneurial motive with the desire for profit, and that more needs to be known about how individuals with personal motivations other than profit maximization really perceive opportunities. Schlange (2009), for example, explores how sustainability-driven entrepreneurs perceive their stakeholders. Based on a broader set of values he identifies sustainability-driven entrepreneurship to include economically, socially and ecologically-driven entrepreneurship. As such it is relevant to consider whether institutional reform should be guided by purely economic motives. Contemporary government policies promoting economic freedom are primarily evaluated based on their effects on economic values, rather than on a full scope of values including social or ecological values potentially relevant for individuals in their chosen forms of value creation.

## Appendix 1

Ranking of countries included in the analysis based on billionaire wealth per capita (BWC) and Economic Freedom (EF) in 2009. In 2009, there were 793 billionaires with an average age of 64.

Number	Country text	BWc	EF	Number	Country text	EF	BWc
1	Hong Kong	9659,4	90,0	1	Hong Kong	90,0	9659,4
2	Sweden	7356,7	70,5	2	Singapore	87,1	1612,7
3	Cyprus	4680,2	70,8	3	Australia	82,6	770,9
4	Kuwait	4318,5	65,6	4	Ireland	82,2	2290,3
5	Switzerland	4013,2	79,4	5	New Zealand	82,0	1537,3
6	United States	3520,0	80,7	6	United States	80,7	3520,0
7	Iceland	3215,5	75,9	7	Canada	80,5	1586,0
8	Israel	2813,3	67,6	8	Denmark	79,6	567,6
9	Saudi Arabia	2504,4	64,3	9	Switzerland	79,4	4013,2
10	Germany	2355,7	70,5	10	United Kingdom	79,0	993,4
11	Ireland	2290,3	82,2	11	Chile	78,3	777,4
12	Norway	1613,9	70,2	12	Netherlands	77,0	512,8
13	Singapore	1612,7	87,1	13	Iceland	75,9	3215,5

14	Canada	1586,0	80,5	14	Japan	72,8	379,6
15	New Zealand	1537,3	82,0	15	Belgium	72,1	338,8
16	Austria	1467,2	71,2	16	Austria	71,2	1467,2
17	France	1024,2	63,3	17	Cyprus	70,8	4680,2
18	United Kingdom	993,4	79,0	18	Germany	70,5	2355,7
19	Malaysia	862,5	64,6	19	Sweden	70,5	7356,7
20	Spain	808,8	70,1	20	Norway	70,2	1613,9
21	Chile	777,4	78,3	21	Spain	70,1	808,8
22	Australia	770,9	82,6	22	Czech Republic	69,4	580,6
23	Russia	718,5	50,8	23	South Korea	68,1	140,3
24	Italy	623,2	61,4	24	Israel	67,6	2813,3
25	Czech Republic	580,6	69,4	25	Mexico	65,8	523,4
26	Denmark	567,6	79,6	26	Kuwait	65,6	4318,5
27	Mexico	523,4	65,8	27	Portugal	64,9	405,3
28	Netherlands	512,8	77,0	28	Malaysia	64,6	862,5
29	Portugal	405,3	64,9	29	Saudi Arabia	64,3	2504,4
30	Japan	379,6	72,8	30	South Africa	63,8	156,7
31	Greece	339,5	60,8	31	France	63,3	1024,2
32	Belgium	338,8	72,1	32	Romania	63,2	83,5
33	Turkey	250,4	61,6	33	Thailand	63,0	111,2
34	Venezuela	211,0	39,9	34	Colombia	62,3	145,5
35	Brazil	210,3	56,7	35	Turkey	61,6	250,4
36	South Africa	156,7	63,8	36	Italy	61,4	623,2
37	Colombia	145,5	62,3	37	Greece	60,8	339,5
38	Ukraine	144,1	48,8	38	Poland	60,3	26,2
39	Kazakhstan	142,1	60,1	39	Kazakhstan	60,1	142,1
40	South Korea	140,3	68,1	40	Egypt	58,0	103,4
41	Thailand	111,2	63,0	41	Philippines	56,8	46,6
42	Egypt	103,4	58,0	42	Brazil	56,7	210,3
43	India	95,0	54,4	43	Nigeria	55,1	25,0
44	Romania	83,5	63,2	44	India	54,4	95,0

45	Philippines	46,6	56,8	45	Indonesia	53,4	32,8
46	Argentina	45,6	52,3	46	China	53,2	33,2
47	China	33,2	53,2	47	Argentina	52,3	45,6
48	Indonesia	32,8	53,4	48	Russia	50,8	718,5
49	Poland	26,2	60,3	49	Ukraine	48,8	144,1
50	Nigeria	25,0	55,1	50	Venezuela	39,9	211,0

Note: The high billionaire wealth per capita in Cyprus is due to one billionaire, John Fredriksen. Originally a Norwegian citizen, he changed his citizenship to Cyprus for tax and personal reasons.

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**ESSAY 2: INDIVIDUAL VALUE CREATION AND ITS STAKEHOLDERS****Abstract:**

The aim of this paper is to explore the notion of individual value creation. The paper reviews the existing stockholder versus stakeholder value maximization debate from the perspective of individual value creation. It proposes, based on existing economics and stakeholder literature a complementing proposition to the debate on normative managerial decision-making that says that individuals *should make all decisions so as to increase the value of their lives*. The paper introduces and develops the stakeholder theory of the individual. It identifies five main categories of stakeholders: *professional, private, personal, public and planetary*. It further presents a change perspective on value and individual value creation. Finally, it highlights *stakeholder-interest* rather than a narrow or enlightened form of *self-interest* as the most appropriate description of the motivation for individual value creation.

## Introduction

A persistent discussion within stakeholder literature concerns the stakeholder vs. stockholder debate (see Agle et al, 2008). However, despite significant contributions, the debate is far from over (e.g. Jensen, 2002; Phillips et al., 2003; Smith, 2003; Sundaram, Inkpen, 2004; Freeman et al., 2004). Within this debate many voices have been raised. In this paper, I will mainly focus on discussing and building upon the perspectives of Michael Jensen and R. Edward Freeman. According to Jensen (2002) the debate is between two competing propositions: the “Value Maximization Proposition” with its roots in 200 years of economics and finance, and the “Stakeholder Theory”, which has its roots in sociology, organizational behavior, the politics of special interest and managerial self-interest.

According to Jensen’s definition (2002: 236) value maximization states that managers should make all decisions so as to increase the total long-run market value of the firm. Stakeholder theory on the other hand according to him says that managers should make decisions so as to take account of the interest of all the stakeholders in a firm. The differences in the normative stances create in the outset fundamentally different perspectives on value creation for the firm. According to Jensen, it is essential to provide an answer to the question of how managers should define better vs. worse and how managers in fact do define it. These views have significant implications for how companies operate and, subsequently, on the welfare of a society’s inhabitants.

Based on an elaborate discussion about the complexity of managing multiple objectives Jensen (2002) argues that maximizing the total market value of the firm resolves the tradeoff problem among multiple constituencies. It gives the manager a rationale according to which one should spend an additional dollar on any constituency to the extent that the long-term value added to the firm from such expenditure is a dollar or more. He continues to argue that this leads, under reasonable conditions to the maximization of social welfare. He criticizes stakeholder theory in turn for not being able to guide managers on how to choose among multiple competing and inconsistent constituent interests. To Jensen, this makes the theory damaging to firms and to social welfare and is an explanation for its popularity. Jensen proposes enlightened value maximization, which uses much of the structure of stakeholder theory, while accepting maximization of the long-run value of the firm as the criterion for making requisite

tradeoffs among its stakeholders. He also argues for long-term value maximization or value seeking as the firm's objective.

However, based on the earlier work of Jensen, an interesting challenge emerges concerning his normative stance on the decision-making of managers on the one hand and the nature of organizations on the other. In Jensen and Meckling's (1976:8-9) seminal article on agency theory, they argue that most organizations are simply legal fictions, which serve as a nexus for a set of contracting relationships among individuals. By legal fiction they mean artificial constructs under law that allows certain organizations to be treated as individuals. Herein, they find questions such as "What should be the objective function of the firm?" or "Does the firm have a social responsibility?" seriously misleading. The firm is not in essence an individual but rather the focus of a complex process in which conflicting objectives of individuals are brought into equilibrium within a framework of contractual relationships. Furthermore, according to Jensen (1983:15), the construction of a theory of organizations involves creating a theory that describes the equilibrium behavior of these complex contractual systems, where the individual agent is the elementary unit of analysis. With regards to organization theory at large Jensen (1994:14) argues that: "It is now time to take the next logical step. We have as a profession broken open the black box called the *firm*...The next step is to break open the black box called the *individual*..(emphasis in the original)"

In an attempt to understand the notion of individual value creation in further depth, I will consequently discuss in detail each of its core elements, i.e. the individual, value and creation. This paper develops the stakeholder theory of the individual and proposes a third and complementary normative proposition that says that individuals should make all decisions so as to increase the value of their lives. This is done based on an intrinsic valuation of individuals as complete human beings as opposed to the instrumental treatment of individuals and/or managers by the previous normative positions discussed. Overall, the proposition is based on an acknowledgement of the full scope of stakeholder relationships of an individual. The proposition itself refers to individuals not just based on their professional roles, but holistically. It is built on a worldview of individuals with unique stakeholder responsibilities.

While the contractual relationships of individuals may designate certain managerial responsibilities, their unique situations still requires them to take into consideration the full scope of their stakeholder relationships. The firm is herein seen of instrumental

value in providing a possibility for individuals and their stakeholders to create value. This might at times mean balancing the interests of the stakeholders of the firm and other stakeholders of the individual, for instance by limiting or even ending one's engagement with a particular firm. It is further argued that the freedom of the individual to choose one's stakeholders (to the degree possible) is essential for the value creation of an individual and societies at large. It is, nevertheless, important to note that due to the multiplicity of roles and responsibilities that an individual has with regards to the firm and other stakeholders, managing the value at hand is not just an argument for a narrow or enlightened form of individual self-interest, but rather a comprehensive form of individual stakeholder-interest as outlined and further described in this paper. It is based on respecting and balancing a multitude of stakeholder interests based on the full scope of roles and responsibilities of the individual.

The paper proceeds as follows. First, the role of the individual is discussed based on the foundations of agency theory. Second, the stakeholder theory of the individual is introduced and developed. Third, a change perspective on value and individual value creation is presented. Finally, the key insights and implications of the paper are concluded.

## **The Role of the Individual**

Most organization research is focused on the unit of analysis of social organizations rather than individuals. However, Jensen and Meckling (1976) argue that most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals. Hence, in order to understand organizations it is essential to understand the behavior of individuals. Consequently, Jensen and Meckling have made an ambitious attempt to summarize over 200 years of research and debate in economics, the other social sciences and philosophy in their seminal article "The Nature of Man" (Jensen & Meckling, 1994:3). In their article, the term "man" is used as a non-gender-specific reference to human beings in general. The first draft of the article was written in the early 1970s. Since then it has been included annually in the courses of Coordination and Control and the Management of

Organizations at both Rochester and Harvard (Jensen & Meckling, 1994:1). The ideas set out in the article serve as the basis of their theory on the “nature of man” and as a critical building block of their subsequent work on agency theory (Jensen, 1994:11). The article has moreover had a substantial impact on a whole generation of global managers and on the development of a range of their widely-disseminated theoretical concepts on managerial behavior, organization theory, agency theory, the corporate objective function, and self-interest, to name a few (Jensen 1983, 1994, 2002, 2008; Jensen and Meckling 1976, 1992, 1994; Eisenhardt, 1989).

Their article argues that the presented resourceful, evaluative, maximizing model known as REMM best describes the systematically rational part of human behavior. In a subsequent article, Jensen (1994) extends their REMM model with a complementary pain avoidance model (PAM) that captures the non-rational component of human behavior. He continues to argue that the joint recognition of these models “converts REMM from a purely positive description of human behavior to a normative model that says how humans should behave” (Jensen, 1994:7). The basic foundations of the REMM model are summarized into four postulates, describing individuals as caring, maximizing and resourceful evaluators with unlimited wants. Freeman and Phillips (2002:343) in turn introduce the principle of complexity that claims that human beings are complex psychological creatures capable of acting from many different values and points of view. It highlights that individuals are not just self-interested, narrowly-economic maximizers. Individuals are sometimes selfish, but sometimes they also act for others. While these perspectives have all served well to enhance our understanding of human behavior, this paper invites to further exploration of the additional insights available from stakeholder theory. This is done in order to achieve a deeper and more contextually integrated understanding of the individual, based on the full scope of his or her stakeholder relationships. This approach is not necessarily an attempt to open up a black box of the individual, as articulated by Jensen (1994:14), but rather it could be seen as an attempt to explore what is outside of the box. More specifically, this could be seen as exploring the individual and the nature of his or her stakeholder relationships.

## **Towards a stakeholder theory of the individual**

Freeman's (1984:46) definition of a stakeholder in his landmark book "Strategic Management: A stakeholder approach" as "any group or individual who can affect or is affected by the achievement of an organization's objectives" has been crafted remarkably well, and a mass of research has subsequently come to rely on his definition. While most of this stakeholder theorizing and research has the firm, corporation or public organizations as the focal entity, the definition itself does not prevent us from regarding the individual as a form of organization and thus studying the stakeholder's of an individual. Freeman (1984) already discusses the professional stakeholders of CEOs, CFOs, Marketing Managers and Financial Managers. McVea and Freeman (2005) further argue for the importance of understanding the stakeholders of a firm on an individual level by exploring a names-and-faces approach to stakeholder management.

Venkataraman and others have in turn highlighted the role of the entrepreneur in stakeholder value creation (Venkataraman, 2001; Mitchell, 2002). Nevertheless, a stakeholder theory where the individual serves as the focal entity and the full scope of stakeholder relationships beyond the professional realm is taken into consideration, remains an undeveloped topic within the current body of stakeholder literature. However, Freeman, Harrison, Wicks, Parmar and de Colle (2010:289) have recently outlined, in conjunction with their listing of potential areas for stakeholder theory development, the possibility of something like a stakeholder theory of the person (herein termed the individual).

While the stakeholder theory of the individual remains an undeveloped topic, it serves to note that the professional relationships of the individual have been studied in some detail and a multitude of conceptual tools have been developed within other domains of research such as the human resource and management development literature. For instance, the 360-degree feedback, multi-rater feedback, upward appraisal, co-worker feedback, multi-perspective ratings, and full-circle feedback are alternative names used to describe a variety of feed-back mechanisms that systematically collect the perceptions of people associated with an individual (Garavan et al., 1997). In effect, it is argued that similar processes have always existed in organizations (Moses et al., 1993). Some estimates indicate that as many as 29% of U.S. organizations are using what is

called multi-source (MSF) or 360-degree feedback (Church, 2000). A number of studies have brought forward findings regarding the organizational context, individual differences, the actual process, the feedback format, the feedback and reactions, method of distribution, organizational support and individual attitudes and behaviors influencing the effects of the multi-source feedback (Atwater et al., 2007).

However, in order to get a better understanding of a particular individual and his or her value creation a more comprehensive view of his or her relationships is called for. This requires conceptual development that moves beyond selected professional roles. The following Figure 1 summarizes a broader conception of the main stakeholder relationships of an individual as developed in this paper. Herein, the professional stakeholders refer to the relevant firm stakeholders of an individual, i.e. managers, colleagues, clients and so on, while the private stakeholders refer to the family relationships of an individual, i.e. spouse, parents, siblings and children etc. Personal stakeholders refer to the informal stakeholders of the individual, i.e. friends, acquaintances and informal team or group members, and public stakeholders refer to the stakeholders of an individual from the public sphere, i.e. politicians, activists and members of private organizations. The planetary stakeholders then refer to the additional forms of life beyond human stakeholders relevant for the individual.

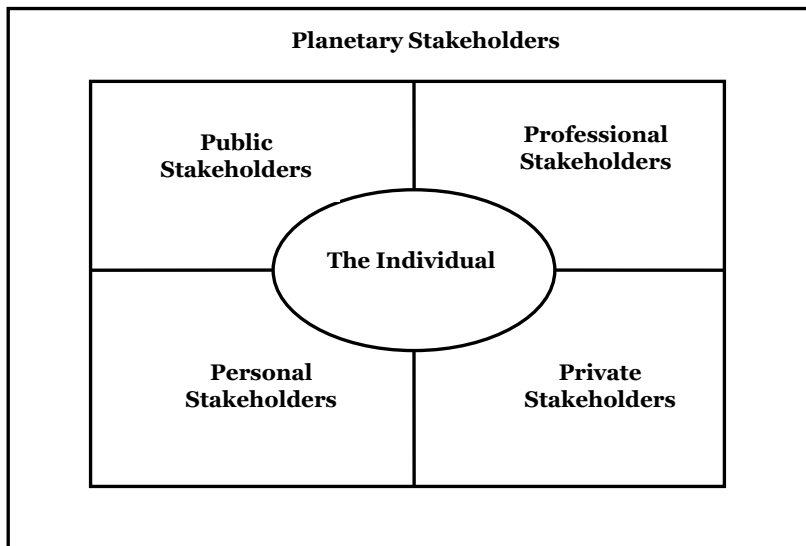


Figure 1: The 5p framework of individual stakeholders

Fassin (2009:131) makes a thorough summary of the different stakeholder groups identified in the literature. His summary adroitly covers the stakeholders of the firm. The private stakeholders of an individual are referred to as the employee's family, without a detailed breakdown of the different types of stakeholders in the family. The personal stakeholders of an individual have not existed in previous stakeholder literature. On the other hand, in Fassins' work, the public and planetary stakeholders are referred to as stakeholders of the firm, but are not discussed from the perspective of a private individual. Table 1 summarizes examples of stakeholders of the individual as herein identified.

Professional	Private	Personal	Public	Planetary
All relevant stakeholders of the firm for the individual	Spouse Parents Siblings Children Grand children Grandparents Cousins Relatives	Friends Acquaintances Informal team or group members	Political groups and politicians Private organizations and their members Fellow citizens	Pets Non-human species Environment Nature

Table 1: 5p categorization of the stakeholders of an individual

Family firm researchers have come closest to discussing the different stakeholder relationships in the family. Sharma (2001) distinguishes between internal and external stakeholders of the firm. Stakeholders involved with the firm as owners, and/or employees, and/or family members are referred to as internal stakeholders of the firm and the others as external stakeholders. Lansberg (1988) and Davis & Taguiri (1989) in turn have developed a model for identifying seven different roles held by the internal stakeholders of the firm. The model itself is regarded theoretically elegant, simple to understand and effective to work with (Gersick, Davis, Hampton, & Lansberg, 1997). It exposes the position of each internal stakeholder with regards to the three dimensions

of ownership, employment and family membership. However, in order to comprehensively understand the value creation of the individual with regard for the full scope of stakeholders and subsequent value creation, the focal unit of analysis must be changed to the individual. A more profound understanding of the individual is essential for a more detailed understanding of his or her position and forms of value creation in the family firm and other contexts.

Naturally, the suggested representation of the individual and his or her categories of stakeholder relationships cannot be all-encompassing, but only serve as one representation of the character of individual relationships. Other categories may well be identified. Furthermore, the model does not shed light on the evolution of stakeholder relationships over time. For instance, the private stakeholder relationships of an individual may vary significantly over time, as the person moves through the roles of being a child, adolescence, parent, grandparent and great-grand-parent. Likewise in the professional realm one may come to interact with many different types of customers, owners, employees, colleagues and other community members as time passes. During one's life one may also make new friendships and acquaintances as well as found different contacts with people active in politics and social affairs. The quality of these relationships as well as their structure, i.e. relative proximity and importance, evolve constantly over time. However, the framework of individual stakeholder relationships serves to give a more comprehensive view of an individual at a particular point in time – in order to produce a more profound understanding of the multitude of relationships affecting and being affected by her behavior. The value of such a holistic outlook of each of us and the change it brings to our relationships is better appreciated by understanding the topic of value and value creation in further depth - discussed in the following.

### **A change perspective on value and individual value creation**

The term value maximization has been a common concept in the stockholder vs. stakeholder debate. However, in terms of value maximization, Rose (2000) proposes to treat the objective function of a company as an open question. He argues that profit seeking is a more fitting objective than value maximization, due to the continuous need to cope with uncertainty through purposive adaption. As such, Rose believes that in order to create value we do not need to know exactly where and what maximum value

is, but only how to seek it. In this paper I have used the notion of value creation to denote that value is not only sought after and external to the individual, but continuously, both voluntarily and involuntarily, created together with one's stakeholders.

However, in order to understand value creation in this context, a more detailed definition of my interpretation of value is called for. The topic of value has been of interest to philosophers, scientists and artists throughout ages. A fundamental cross-scientific discipline itself has been formed termed, axiology, or value theory. The term itself stems from the Greek words "*axios*": value or worth, and "*logos*": reason or theory. Different forms of axiologies are concerned with understanding what, how and why people value things. These theoretical insights on value have consequently had cross-scientific implications on a range of sciences including psychology, sociology, ethics and economics. Some of the axiologies are the products of individual thinkers, others the focus of informal and formal groups of scholars and practitioners. The stakeholders of different forms of axiologies are many and diverse. Stakeholder theory may itself be seen as a form of axiology.

Historically, philosophers in ethics have been interested in the topic of value and goodness. G.E. Moore (2004) proposes in his magnum opus "Principia Ethica", which he introduced as a prolegomena to any future ethics, that most philosophers working in ethics have made a mistake that he refers to as the naturalistic fallacy. According to Moore, the naturalistic fallacy is committed whenever a philosopher attempts to prove a claim about ethics by appealing to a definition of "good" in terms of one or more natural properties, such as pleasure, beauty and interest.

In this paper I will approach the notion of *value as change* and *value creation as exchange*. Value as change may include both positive and negative change similar to positive and negative value. In terms of having certain values, such as honesty, this means that we regard honesty as a positive change from its non-existence. From the perspective of individual value creation, we may further regard the existence and actions of an individual from the perspective of the change (or resistance to change) that he or she brings to the world. Our forms of value creation or exchange may take a multitude of different forms. They may for instance include different types of human exchange with the physical world in terms of production, economic exchange in the markets and social exchange in societies at large.

Human exchange itself has been studied in a range of different social settings ever since Adam Smith and the foundation of economics. One of the most central interpretations by subsequent authors within economics and sociology of the role of the exchange has been carried out by the Nobel Laureate Milton Friedman. According to Friedman (1981:5) Adam Smith's key insight was that: "if an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it". No external force, no coercion, no violation of freedom is necessary to produce cooperation among individuals from which all parties can benefit. This aspect in itself has been duly captured by Jensen and Meckling's (1994) first postulate of the REMM model, which focuses on voluntary exchange, i.e. that each individual is willing to make trade-offs and substitutions. Yet, even as human exchange has been a core interest of a great deal of research, it has nonetheless proven practically impossible to incorporate all the relevant aspects of human exchange. Seminal sociological works such as by Malinowski (1922) on native exchange, Homans (1958), Blau (1964), Ekeh (1974) and Miller (2005) on social exchange theory and more contemporary research by Flynn (2003a, 2003b, 2005) on employee exchange all contribute to a more nuanced picture on human exchange.

However, this paper stipulates that, there is no such a thing as purely voluntary exchange. It argues that exchange is continuous. We are bound to exchange. Only a part of our stakeholder relationships are rational and free for us to choose. Our value creation or forms of exchanges are not confined to the limits of explicit or implicit contracts. Exchange does not only happen in cases where both parties benefit. Exchange is also carried out in order to hurt others. As such, the stakeholder relationships arising from these exchanges include voluntary and non-voluntary and conscious and unconscious forms of exchange. The stakeholders of an individual are only partly for him or her to choose. We cannot choose our parents, sisters and places and timing of birth. Each of us as individuals has a unique history of exchanges leading to our unique and irreplaceable human lives. Donaldson and Dunfee (1994) bring forth the notion of a "bounded moral rationality" describing the delicate situation of the individual due to our limited ability to assess facts and utilize moral theories to capture the moral truth, and understand and function in the plastic nature of economic systems and practices. Based on this notion, this paper subsequently argues that not only our rationale, but also our entire existence is in fact bounded. This "*bounded morality*" i.e. the uniqueness of the moral situation in which we exist (as described by the individual

stakeholder maps), creates the basis for understanding all subsequent forms of behavior and value creation.

In sum, individual value creation is herein regarded as a complex, constant, unique and continuously process of change. In terms of value creation, the individual faces a multitude of issues and changes. For instance, individuals within family firms may be facing delicate balancing issues in managing their professional, private and other stakeholder relationships simultaneously. Furthermore, doing business with friends may create unique dynamics requiring individuals to balance their personal and professional relationships in an appropriate way. The full scope of roles that an individual has as a manager, family member, friend, citizen and a form of life creates a multitude of delicate interests to be balanced. Donaldson (1990) has addressed the pressing problem of the morally privileged relationships of individuals by developing a set of principles for determining a justified range of partiality. However, many complexities remain and individual value creation in a particular context unavoidably remains an open question. The limits of our understanding of each other and the situations in which we encounter others will always remain to some degree a mystery to our understanding.

## **Conclusions**

According to Freeman (1994:413): “There is no such thing as the stakeholder theory... ‘The stakeholder theory’ can be unpacked into a number of theories, each of which has a ‘normative core’, inextricably linked to the way that corporations should be governed and the way managers should act.” In this paper, I have presented a new form of stakeholder theory, herein termed the stakeholder theory of the individual, with a normatively individualistic core highlighting the intrinsic and holistic treatment of individuals and their forms of value creation.

Having discussed in some detail individual value creation it serves to reflect on its implications on the stakeholder management of the firm. As stated at the outset, the firm is herein seen as the focus of a complex process by which individuals and their stakeholders create value. Consequently, as a contrast to the nexus-of-contracts view of the firm, the firm can also be regarded as a nexus of individuals and their stakeholders.

The value of each individual to engage with other individuals associated with the firm is essential for the continued existence of the firm. From a management perspective, this calls for managers to not only know the relevant professional stakeholders of the individuals but also their full scope of stakeholders, as complete human beings, where appropriate.

While arguing for the holistic treatment of individuals I would, nevertheless, caution of against its potential negative effects. On the one hand, individuals should have a right to their privacy. There is a limitation on how much the private lives of individuals should be subject to exposure or should impact their professional lives. On the other hand, there are substantial limitations on the extent to which business managers can take into account the private lives of every individual and their stakeholders. Managing privileged relationships also create difficulties with respect to fairness and equal opportunity in professional life. In this paper, I cannot propose any easy answers to such dilemmas. Difficult prioritizations decisions are always culturally bound and highly situation-specific. I hope, nevertheless, that this paper has been able to expose some of the complexities involved in individual value creation.

The focus of stakeholder theory is ultimately articulated in two core questions: “What is the purpose of the firm?” and “What responsibility does management have to stakeholders?” (Freeman, 1994; Freeman, Wicks and Parmar, 2004). From the perspective of the herein developed stakeholder theory of the individual, the two core questions could be restated as “What is the purpose of my life?” and “What responsibility do I have to my stakeholders?” It highlights the importance of stakeholder responsibility on an individual level, as a complement to the firm level. Consequently, topics such as corporate responsibility (CR) call to be assessed also from the perspective of individual responsibility (IR), involving an integrated view of one’s stakeholders and the value that one’s actions may bring or destroy.

In sum, I have in this paper argued for the development of stakeholder theorizing by complementing the existing levels of analysis with an individual level of stakeholder analysis. My approach is normatively individual-centric, as opposed to a manager-centric or investor-centric orientation. Does this focal unit of analysis represent a positive and complementary change? Or in terms of the presented change perspective on value and value creation, does this add value to our understanding of stakeholder theory? I argue in this paper that the extant separation of the discussed professional stakeholders and the largely overlooked other, herein identified as private, personal,

public and planetary stakeholders of the individual, is a research gap in current stakeholder literature. I also argue that the separation of business life from other areas of value creation of the individual is artificial. According to the separation thesis described and challenged by Freeman (1994:412): “The discourse of business and the discourse of ethics can be separated so that sentences like, ‘x is a business decision’ have no moral content, and ‘x is a moral decision’ have no business content.” Similarly, based on the form of stakeholder theory of the individual presented here, it is argued that one cannot define an individual as purely a ‘business person’ without a consideration of the ‘person as a whole’, with a unique set of stakeholder roles and responsibilities. As such, I withhold that the key component in any value creation process is the individual and his or her relevant scope of stakeholder relationships. This holds true regardless if the organization in question is a firm, family, team, association, NGO or any public organization. As such, I hope that the stakeholder perspective of the individual and value creation herein presented may enrich the existing body of stakeholder literature regardless of the focal unit of analysis pursued.

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**ESSAY 3: RATIONALITY, REMM AND INDIVIDUAL VALUE CREATION****Abstract**

This article evaluates alternative models for explaining human behavior. In particular, it compares the resourceful, evaluative, maximizing model (REMM) with the economic (or money maximizing) model of human behavior. The theoretical framework is developed to enhance our understanding of “individual value creation” and to seek an economically rational explanation to: Why Warren Buffett is giving his money away to charity? The article develops a framework of biological, material and immaterial sources of value. The article additionally extends the existing REMM and finds several economically rational reasons for him to give away his money including the present value of help and goodwill, gained control, and lowered transaction costs.

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# Rationality, REMM, and Individual Value Creation

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**ABSTRACT.** This article evaluates alternative models for explaining human behavior. In particular, it compares the resourceful, evaluative, maximizing model (REMM) with the economic (or money maximizing) model of human behavior. The theoretical framework is developed to enhance our understanding of “individual value creation” and to seek an economically rational explanation to: Why Warren Buffett is giving his money away to charity? The article develops a framework of biological, material, and immaterial sources of value. The article additionally extends the existing REMM and finds several economically rational reasons for him to give away his money including the present value of help and goodwill, gained control, and lowered transaction costs.

**KEY WORDS:** charity, rationality, REMM, individual, value, creation

## Introduction

There is a longstanding debate on the topic of economic rationality. At the core of economic rationality is the logic of personal gain. John Stuart Mill is generally identified as the creator of the “economic man,” even though he never actually used this term in his own writings. However, the term did emerge in reaction to and as a part of wide spread hostility of the historical school toward Mill’s theoretical abstractions and postulations of blatant selfishness (Persky, 1995, p. 222). Since, its origin the term and its logic has been a target of substantial literary critique. Noteworthy books include Peter Drucker’s (1939) *The End of Economic Man*, Harvey Leibstein’s (1976) *Beyond Economic Man*, David Marsden’s (1986) *The End of Economic Man?*, and Marianne Ferber’s and Julie Nelson’s (1993) *Beyond Economic Man: Feminist Theory and Economics*. A thorough review of this literature may be found in

Joseph Persky’s retrospective article on the ethology of Homo Economicus (Persky, 1995, p. 221).

However, the most progressive economic thought of today has moved substantially forward not only to include material but also non-material values, together with both selfish and altruistic motives. Nevertheless, a multitude of alternative perspectives continue to exist in explaining human behavior. Michael Jensen and William Meckling make an ambitious attempt to summarize over 200 years of research and debate in economics, other social sciences, and philosophy on the topic in their seminal article “The Nature of Man” (Jensen and Meckling, 1994, p. 3). Man is herein used in a non-gender-specific reference to human beings in general. The first draft of the article was written in the early-1970s. Since then it has been included annually in the courses of Coordination and Control and the Management of Organizations at both Rochester and Harvard (Jensen and Meckling, 1994, p. 1). The ideas set out in the article serve as the basis of their theory on the “nature of man” and as a critical building block of their subsequent work on agency theory (Jensen, 1994, p. 11). The article has moreover had a substantial impact on a whole generation of global managers and on the development of a range of their widely disseminated theoretical concepts on managerial behavior, organization theory, agency theory, the corporate objective function, and self-interest to name a few (Eisenhardt, 1989; Jensen, 1983, 1994, 2002, 2008; Jensen and Meckling, 1976, 1992, 1994). This article is largely indebted to them and the wealth of outstanding thinkers that they in turn draw their insights from.

In their article “The Nature of Man,” Jensen and Meckling investigate five alternative models of human behavior that according to them are commonly used, though usually implicitly, by scientists,

managers, policy makers, and citizens. These include the (1) resourceful, evaluative, maximizing model (REMM), (2) the economic (or money maximizing) model, (3) the psychological (or hierarchy of needs) model, (4) the sociological (or social victim) model, and (5) the political (or perfect agent) model. Their article argues that the REMM best describes the systematically rational part of human behavior. In a subsequent article, Michael Jensen (1994) extends their REMM with a complementing pain avoidance model (PAM) that captures the non-rational component of human behavior. He continues to argue that the joint recognition of these models “converts REMM from a purely positive description of human behavior to a normative model that says how humans should behave” (Jensen, 1994, p. 7). The basic foundations of the REMM are summarized into four postulates, describing individuals as caring, maximizing, and resourceful evaluators with unlimited wants. Despite the thorough review and argumentation of Jensen and Meckling of each of the postulates, much work still remains to be done for a practical understanding of value and valuing. For instance, regardless of the initial claims of Jensen and Meckling (1994, pp. 3–9), of the REMM as a caring and broadly evaluative individual, their practical illustration of the REMM at work is primarily based on a narrow calculation of the effects of time lost or gained on the accumulation on money and wealth. For instance, in their example of speeding the effects of loss of control due to higher speed leading to risks to oneself and others (not only reconciled by insurance costs), bad-will from breaking the law and other cultural values are practically ignored.

Nevertheless, the impact of their REMM is significant. According to Jensen and Meckling: “REMM is the basic building block that has led to the development of a more or less unified body of theory in the social sciences” (Jensen and Meckling, 1994, pp. 34–35). Multiple applications have been done in alternative fields. They cite among others the works of Nobel Laureate Gary Becker (1968, 1973) on crime and marriage and Downs (1957), Buchanan and Tullock (1965) on political choice, Niskanen (1971) on bureaucracies, and Alchian and Demsetz (1972), Arrow (1971), Jensen and Meckling (1976, 1992), Williamson (1970, 1975), and Milgrom and Roberts (1992) on organizational problems within the firm. The aim of this article is to

continue this discussion and develop the REMM for an enhanced understanding of individual value creation. The theoretical framework itself is used to seek an economically rational explanation to: Why Warren Buffett is giving his money away to charity?

### The development of the REMM

The REMM is developed based on a wealth of different disciplines. According to Jensen and Meckling (1994, p. 34), it draws insight from all the other models in their article. In their words:

- From the *psychological model*, “REMM takes the assumption that income elasticity of demand for various goods has certain regularities the world over. Nevertheless, in taking on this modified notion of hierarchy of needs, it does not violate the principle of substitution by assuming that people have ‘needs.’”
- From the *sociological model*, “REMM takes on the assumption that ‘society’ imposes costs on people for violating social norms, which in turn affect behavior; but it also assumes that individuals will depart from such norms if the benefits are sufficiently great. Indeed, this is how social change takes place.”
- From the *political model*, “REMM takes on the assumption that people have the capacity for altruism. They care about others and take their interests into account while maximizing their own welfare. REMM rejects, however, the notion that individuals are perfect agents.” It is further to be noted that the REMM’s interest of others does not include *all* others but *selected* others. In Jensen and Meckling’s (1994, p. 28) words: “Altruist as she is, Mother Teresa’s devotion to caring for the poor of Calcutta does not make her a perfect agent. It is highly doubtful that she would agree to (or effectively) represent the interests of someone who wished to save the whales, or to make computers. Like all REMMs, she has her own preferences and will exercise her own choice over whom she devotes her time to helping.”

Now, according to Jensen and Meckling (1994, pp. 34–35), the main difference between the REMM and the economic model is as follows:

- From the *economic model*, “REMM takes the assumption that people are resourceful, self-interested, maximizer, but rejects the notion that they are interested in only money income or wealth...They care about not only money, but almost everything – respect, honor, power, love, and the welfare of others.”

The difference in the scope of values of the two models is expressed in Figure 1. The economic model is ultimately only concerned with the material wealth of the self (1). All other aspects are of instrumental concern. Whereas, the REMM is concerned with all aspects of value, i.e., both the material and non-material values of the self (1, 2) as well as those of others (3, 4) in themselves.

The difference in the scope of values between the two models is crucial leading to fundamentally different decisions for value creation. In order to better understand the difference between valuation decisions between self and other, Rocha and Goshal (2006) contribute with an approach, termed self-love view that aims to integrate self-interested and unselfish human behavior. This model entails both a spectrum of objects (i.e., what is considered as good?) and subjects (whose interests?) human behavior is concerned with. In terms of the subjects, they identify four categories of interests, i.e., “only self,”

“only others,” “self as end others as only means,” and “both self and others as ends” (Rocha and Goshal, 2006, p. 608). Based on the presented framework, it is of particular interest to discuss the effects of time on prioritizing different values over others. Whose and what values are addressed and when? Does it make sense to focus on giving money to others if one has earned none? How can one give respect and honor to others, if oneself does not have any? How does aging, i.e., awareness of an increased probability of death, lead to changes in values over time? Multiple issues arise that call for situation specific understanding of the relevant values in question. It is apparent that different situations call for varying possibilities for exchange between the different sources of values. A continuous reassessment is needed to realize new ways for value creation.

It serves to further note that while the REMM is based on the notion of maximization, in this article I am primarily referring to the notion of creation. Jensen (2002, p. 238) himself acknowledges the limitations of the notion of “value maximization” and uses the notion of “value seeking” in parallel to avoid the confusion when some people argue that maximizing behavior is difficult or even impossible in a complex world. Rose (2000) originally argues that *profit seeking* is a more fitting objective than *value maximization* due to the continuous need to cope with uncertainty through purposive adaption. As such according to him to create value we do not need to know exactly where and what maximum value is but only how to seek it. In this article, I have in turn chosen to use the notion of “value creation” to denote that value is not only sought after and external to the individual but continuously, both voluntarily and involuntarily, created together with one’s stakeholders. Based on this theoretical framework of values, associated with REMM-like behavior, we will next proceed to discuss Warren’s case in further detail.

### Warren’s gift

In 2006, Warren Buffett decided to give away his fortune to charity with 83% going to Bill and Melinda Gates foundation (<http://www.gatesfoundation.org/AboutUs/RelatedInfo/Bufett.htm>) (Forbes Magazine, 2008). At the time of the announcement,

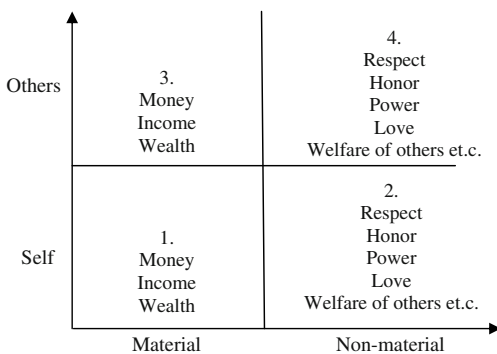


Figure 1. Material and non-material sources of value.

the gift was valued at \$31 billion and it has been termed as the largest private donation ever. The gift was specified to be given in 5% parts over the next 20 years. The final value of the gift will be determined according to the value of the Berkshire Hathaway's shares during this period. However, most probably as a sum and in inflation-adjusted dollars, Buffett will give away more money than, for instance, Andrew Carnegie or John D. Rockefeller in their times. Andrew Carnegie's donation gave universal access for the poor to books via libraries. Rockefeller funded research that would lead to the eradication of polio. Buffett's decision to give the bulk of his money to Bill and Melinda Gates Foundation is a fascinating and historic one as a part of economic history.

Warren Buffett has been claimed to have made his fortune by applying the value-investing principles of Ben Graham and David Dodd's Security Analysis (Buffett, 1984; Graham and Dodd, 1951). Today, Warren Buffett is regarded as an icon of the value-based approach to investing. Warren Buffett's adherence to his investment philosophy and personal frugality has inspired a wealth of interest by people all around the world (Lowenstein, 1995). Today, Berkshire Hathaway annual meeting attracts friends and investors from all around the world into an annual event, referred to as the Woodstock of Capitalism, to hear the latest views and statements of Warren Buffett and his investment team. The 2008 attendance to the annual meeting exceeded 17,000 people. Warren's vision and wisecracking approach has earned him the nickname "Oracle of Omaha." His thoughts have inspired a quasi-science called Buffettology attempting to understand his investment philosophy.

The reasons why Warren is giving away his money have developed over a long period of time. In Alice Schroeder's (2008) biography of Warren Buffett, she outlines the evolution of Warren's thinking. Originally, Warren had two main philanthropic issues for the Buffett Foundation, i.e., overpopulation and nuclear proliferation. Since the 1970s, the Buffett Foundation's focus on the overpopulation issue concentrated on giving women access to contraception and abortion. By the mid-1990s, Warren's focus shifted from "population control" to "reproductive rights." Concerning nuclear proliferation, Warren would have given as

much money as he could. However, the problem did not lend itself to financial solutions. In his words:

A nuclear attack is inevitable. It is the ultimate problem of mankind. If there is ten percent probability that it will happen in a year, there's 99.5% probability that it will happen in fifty years. But if you can get that probability down to three percent, that reduces the probability to only seventy-eight percent in fifty years. And if you can get it down to one percent, there is only a forty percent probability in fifty years. That's a truly worthwhile goal – it could literally make all the difference in the world (Schroeder, 2008, p. 641).

According to Schroeder, a key moment occurred as Warren was celebrating his 65th birthday with friends. They were discussing Andrew Carnegie's premise: "He who dies rich dies disgraced." Warren had always planned to die rich and disgraced, in order to have more to give away after he was gone. He insisted that the best use of his talents would be to keep making more money until he died. He had no interest in being involved in charity work. However, as the discussion progressed Bill Gates asked: "Shouldn't the measure of accomplishment be how many lives you can save with a given amount of money?" Bill Gates had agreed with Warren's earlier comment that you had to make the money first in order to have the money to give away. However, Bill Gates highlighted the value of time by saving more lives in the present (Schroeder, 2008, pp. 640–641). In 2006, Warren announced his irrevocable decision. He had decided to give the majority of his fortune (83%) to charity. Most of it was given to the Bill and Melinda Gates foundation.

At the time of the pledge in 2006, Warren's gift to Bill and Melinda Gates Foundation was worth approximately \$31 billion. It has been termed the largest private donation ever. It was specified that the gift would be given in 5% installments over the next 20 years. Ten million (10,000,000) Berkshire Hathaway Inc. B shares have been pledged. The first installment of 500,000 shares, or 5% of 10 million, was transferred to the asset trust in August 2006, with a value of about \$1.6 billion. Each year, 5% of the remaining pledged shares will be transferred to the asset trust. According to Warren's will the proceeds from the Berkshire Hathaway shares that he still owns at death are to be used for philanthropic purposes within 10 years after his estate has been

settled. The conditions attached to the pledge include the following. First, either Bill or Melinda Gates must be alive and actively involved in the management of the foundation. Second, the foundation must continue to satisfy the legal requirements qualifying Warren's gift as charitable, exempt from gift or other taxes. Finally, starting in 2008, the total value of the previous year's gift had to be spent. This means that in 2009, the foundation had to spend at least the amount that was gifted in 2008, in addition to the amount we would be required to spend under federal tax law.

As of September 30, 2009, the Bill and Melinda Gates Foundation's endowment assets available for charitable activities totaled \$34.17 billion. The foundation is based in Seattle and is led by CEO Jeff Raikes and co-chair William H. Gates Sr., under the direction of trustees Bill and Melinda Gates and Warren Buffett. According to the Bill and Melinda Gates Foundation website, their aim is to help all people lead healthy, productive lives. In developing countries, the Foundation focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty. In the United States, it seeks to ensure that all people – especially those with the fewest resources – have access to the opportunities they need to succeed in school and life. The Gates Foundation has 15 outspoken principles that are said to reflect the Gates family's beliefs about the role of philanthropy and the impact they want their foundation to have. These principles guide what they do, why they do it, and how they do it. While many of them are fundamental to the way they operate at the same time they wish to remain open to amending them as they grow and learn more about their work. Furthermore, according to their website, there are two simple values that lie at the core of the foundation's work: All lives – no matter where they are being lived – have equal value. To whom much is given, much is expected.

### The value of Warren's gift

Warren's decision to give clearly evolved over time. There are multiple perspectives that are worthy of being explored in order to answer: Why is Warren giving away his money to charity? However, based on the theoretical framework we will focus our

attention on the economic rationale of: Why Warren Buffett (1) is *giving away his money* as opposed to (2) focusing on *making as much money as possible until his death* as he had previously thought? In order to answer the question, in a structured fashion, we will first discuss the respective explanatory powers of the economic model and REMM. Where after, the two opposing strategies and their associated value effects are compared in further detail.

According to the *economic model* of human behavior, individuals act to maximize the material value of the self, i.e., the individual money income or wealth. According to Schroeder (2008) prior to his pledge Warren had always planned to die rich and disgraced, in order to have more to give away after he was gone. He insisted that the best use of his talents would be to keep making more money until he died. He had no interest in being involved in charity work (Schroeder, 2008, pp. 640–641). As such, his behavior suited almost perfectly the economic model, i.e., that people are resourceful, self-interested, maximizers of personal money income or wealth. However, the model does not fit it completely. Warren was still interested in giving his money away and the full scope of its effects.

As such, we turn to the *REMM* for a deeper understanding of his actions. This requires us to consider the full scope of values associated with his decision, i.e., material and non-material for both himself and others. In order to understand the economic rationale of his behavior, the two opposing strategies of action, i.e., herein named “*give at death*” and “*give now*,” need to be compared. However, we need to remain modest in our possibilities to identify all material and non-material effects of his decision. As such, we will discuss in the following the main categories of values, as developed by the REMM, aiming to give a reasonable account of the economic logic of the decision.

First, from the *perspective of the material-self* the decision to “*give now*” leads to an immediate, yet staged, material wealth loss for Warren. Based on a purely economic model of human behavior, there would be no economically rational reason to give away his money, unless, it would somehow indirectly lead to an increase of his material wealth – which would seem highly improbable. The REMM, in turn, accepts a material wealth loss provided that it is substituted for other valuables of greater value for Warren.

Second, from the *perspective of the non-material-self* the decision to “give now” leads to a higher goodwill and control for Warren. “Giving now” implies substituting the potential goodwill of his gift after his death for the goodwill in the present. As such, the goodwill is achieved with immediate effect for himself and the organizations involved in the transaction. Furthermore, “giving now” involves substituting the control of his gift through his will for the control through his pledge and his chosen involvement in the management of the Foundation.

Third, from the *perspective of the material-other* the decision to “give now” leads to higher wealth for others through the staged transaction. The value of money is increased through a staged transaction as opposed to a one-time transaction. The staged transaction allows all parties to adapt their behavior and operations to a predictable transfer of money rather than reacting to an unpredictable death of Warren.

Finally, from the *perspective of the non-material-other* the decision to “give now” leads to a higher value of saving lives in the present. As such, it prioritizes delivering the needed help now rather than waiting for the unpredictable future. As such, Warren chooses to put his money to work for active relief instead of holding on to passive ownership.

Based on the comparison, we may summarize the main value effects as follows in Table I leading to Warren’s decision to “give now”.

**Theoretical development of the REMM**

Despite the significant contributions of the REMM, there is still room for improvement. The model itself

draws insight from a host of social sciences, including philosophy, psychology, sociology, and political science. However, it does not explicitly deal with biological and environmental models on the nature of man. The REMM in its current form implies that there are no such things as needs. According to the Jensen and Meckling (1994, p. 9): “The word need has only meaning only when it is used in the conditional sense. For example: An individual needs X cubic liters of air per hour in order to live”. According to them, the failure to take account substitution is one of the most frequent mistakes in the analysis of human behavior. Individuals are always willing to give up a sufficiently small amount of any good for a sufficiently large amount of other goods. When focusing on needs in the conditional sense, i.e., needs in order to live, we open up the importance biological and environmental needs for sustaining life. These include basic nourishment (air, food, and water), health, or absence of terminal disease and the health of the biosphere as a whole. Based on the differentiation of biological and environmental values, together with renaming non-material to immaterial values, we get the following scope of values as expressed in Figure 2.

The extension of the REMM shows Warren’s substitution of values from the material-self (2 = money) to immaterial-self (3 = goodwill/control), biological-other (4 = global donations to alleviate hunger and disease) and immaterial-other (6 = US donations to succeed in school and life) thorough the transfer of money to Bill and Melinda Gates Foundation (5).

Based on the framework, interesting additional questions arise, beyond the scope of this article, both

TABLE I  
Warren’s decision to give and its impact on values

Value comparison	“Give now”	Value	“Give at death”
1. Material-self	Gradually declining wealth	<	Full wealth until death
2. Non-material-self	Present Goodwill Management Control	>	Future Goodwill Legal control
3. Material-other	Staged transaction Predicted cash-flow	>	One-time transaction Uncertain cash-flow
4. Non-material-other	Present Help	>	Future Help
Sum	Now	>	At death
Model	REMM	>	Economic model

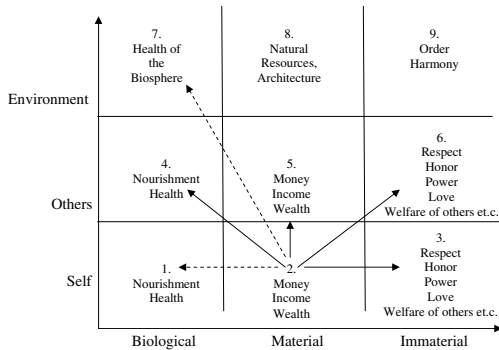


Figure 2. Biological, material and immaterial sources of value.

on a personal and environmental level. What are the effects of his decision on his own health? Could the achieved goodwill actually also have benefits on his own health? (1) What about the effects of his decision on the biosphere as a whole? Is his decision, to turn his back on nuclear proliferation irrevocable? (7) Even though he has not yet found a financial solution to the problem, could new models be found through new knowledge and understanding to better manage the (increasing) risks of nuclear attacks at hand?

## Conclusions

According to Jensen and Meckling (1994, p. 35) REMM are everywhere, "...Whether they are politicians, managers, academics professionals, philanthropists, or factory workers, individuals are resourceful, evaluative maximizers." A key characteristic of the REMM is its acknowledgment on human creativity and resourcefulness. According to Jensen and Meckling (1994, p. 5) "Although an individual's opportunity set is limited at any instant in time by his or her knowledge of the state of the world, that limitation is not immutable. Human beings are not only capable of learning about new opportunities, they also engage in resourceful, creative activities that expand their opportunities in various ways." There is a constant creation of values that open up new opportunities for people. As such,

we are approaching the crucial "so, what?" question. I hope that a review and development of the economic rationality of REMMs and Warren's decision to give has provided you with new thoughts and knowledge on your own "individual value creation." If yes, this article has fulfilled its purpose on an individual level. From a theoretical stand-point, this article has exemplified the usage and developed the existing REMM. It has furthermore provided an extended framework for individual value creation acknowledging the role of biological, material, and immaterial values for different stakeholders. Empirically, it has explored the rationale of Warren Buffett giving away his money to charity.

However, this article is not the final word on the subject. Warren is still alive. He and others may and will still re-purpose his decision. Furthermore, more theoretical knowledge is sought after for a better understanding of future versions of REMMs, our values and valuing. History is and should be rewritten as our understanding evolves. However, for the time being I rest my case.

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