

## A natural theory of the firm

As a summative statement of the central theme of **Natural Corporate Management**, a natural theory of the firm is now proposed. This theory or model of the modern business corporation encapsulates all of the major natural components described in the preceding chapters. The theory adopts the standard language used to identify and to organize the major features of a theory of the firm. These categories include a firm's **initiator/founder, authorization, goals/motives, economic functions, organization, governance, decision system, strategy, and purpose**. For each of these standard categories, an equivalent set of terms is substituted that identifies the major characteristics of a natural theory of the firm. In both kinds of theory—whether standard or natural—the essential meaning and function of the categorical trait is the same, although the language usage and labels differ from one to the other by reflecting the nature-based traits found in a natural theory of the firm. In one sense, these language differences tend to

conceal the functional similarity or sameness of the standard and natural categories as experienced in actual business firms.

A description of each category of the natural theory of the firm follows, and an accompanying chart depicts them in outline form. The numerous legal and practical variations and subtleties that are typically present in the actual performance of any business firm are necessarily missing from this brief, condensed version.

### Initiator/founder and authorization

A business firm is normally proposed by an entrepreneurial group to achieve some public purpose, and therefore its activities are authorized by a recognized public entity, usually a government agency. A formal charter is issued, which describes the specific purpose(s) of the firm, plus detailed legal rights and limits involved in the firm's operations.

Inasmuch as this book proposes that *all* business firms are manifestations of an evolving natural process that affects the general public interest, they are subject to a process of public acceptance and authorization. Long before the modern corporate form of organization appeared, business activities were subject to a variety of public approval processes, ranging from norms of market reciprocity to more explicit rules governing product quality, fair prices, and apprenticeship training. Medieval guild rules, religious edicts, town ordinances, feudal land rights, royal decrees, and nation-state laws constituted early forms of authorization and regulation of business entities.

The initiating factor in all such historical cases—as is true today—has been an entrepreneurial group that proposes to engage in commercial enterprise by producing and selling products or services to buyers. In the natural theory of the firm, this founding entrepreneurial group, plus the subsequent addition of other owners, employees, and managers, constitutes the organic collectivity that defines the firm or corporation as an economic entity.

### Goals and motives

The ultimate goal of a privately owned business firm is to generate profitable returns for the owner(s) resulting from commercial activities undertaken in the market. Profit-seeking and profit-making are the firm's principal drivers and motives.

In the language of the natural theory of the firm, the firm's goal is *survival of the firm through economizing plus adaptation to its natural environment through ecologizing*. **Economizing** is a thoroughly natural process whereby a business firm strives to maximize its earnings by exerting prudent control over its costs while offering goods and services at prices that will be perceived by buyers as benefits worth purchasing. A firm that does so consistently will normally survive for successive quarters over extended periods. **Ecologizing** is a natural process that enables a business firm to adapt successfully to its economic, social, and ecosystem environments by interacting in positive ways with other organic entities: competitors, consumers, suppliers, local and global (sometimes called "glocal") communities, stakeholders, and governments. Balancing a firm's economizing and ecologizing activities is required if the firm is to adapt and survive over long periods. Ecologizing behavior preserves, protects, and prolongs an entire ecosystem in which the business firm operates.

### Economic functions

The primary economic functions of the business firm are three: capital acquisition and accumulation, production of goods and/or services, and distribution through market transactions.

In the standard theory of the firm, **capital** takes the form of accumulated money funds; goods and services are **produced** by the skills of employees using relevant technology; and **distribution** to buyers is accomplished through coordination of supply chains and marketplace negotiations.

In the natural theory of the firm, the self-same functions are carried out, although with different and expanded descriptors of the categories. Capital takes several different forms: organic capital, mineral/chemical capital, tool/technology capital, human capital, social capital, symbolic capital (including money), and information capital. These kinds of natural capital are a form of thermodynamic energy, each one an offshoot of an underlying process of evolutionary development and each one helping the business firm to attain a maximum rate of thermodynamic energy transduction, thus avoiding a condition of entropic equilibrium which is equivalent to economic failure and bankruptcy. The accumulation of capital in the natural firm is therefore best described as a process of **energy intake** whereby the firm acquires the energy sources needed for survival and adaptation on natural economic landscapes and ecosystems.

Production of goods and services occurring in the natural firm can similarly be considered as an activity labeled **energy processing** whereby the various forms of capital are converted into items that are saleable in the marketplace. The distribution function can likewise be characterized as a process of **energy transfer** whereby goods and services are moved by marketing techniques from production sites to markets that are governed by social reciprocity-redistribution guidelines that allow a socially acceptable amount of economic gain by the natural firm. This is not to deny the presence of monopolies, corruption, bribery, and other anti-market activities that can defeat or diminish the overall economic benefits generated by the firm through such energy transfers.

### Governance, organization, and decision system

For-profit business firms are governed by their owners or by the owners' representatives, typically an elected board of directors headed by a chairperson, and including a vice-chairperson and other directorial posts, plus committees responsible for overseeing various operational and policy areas. Board members are responsible for overall company policy aimed at achieving the firm's goals. The board appoints the firm's executive managers, determines their compensation, reviews their performance, and has power to dismiss them for underachievement. These board powers, responsibilities, and goals constitute the basic governance system of most large-scale corporations.

The organization of a business firm's operations is derived primarily from its governance system, which centers power and control in a relatively small number of directors and executive managers. These senior-level officers and executive managers identify and appoint a series of professional managers to oversee diverse operational divisions of the company, thereby creating a hierarchical layering of personnel to carry out the needed technical and economic tasks of the company. The resultant organizational system thus reflects both a hierarchical allocation of decision-making and policymaking power and a significant participatory role for technical professional personnel as decisions are made and policies are set and reviewed. Thus, the firm's decision system is a blend of scalar rank and technology-based professional skills.

Restated now in the language of a natural theory of the firm, this governance-organization-decision system can be understood as a type of

evolutionary inheritance of behaviors passed on to the modern era from an ancient past. The modern business firm is the inheritor of three basic kinds of organizing pattern. One is top-to-bottom rankings, having the shape of a pyramid that places a few powerful executives at the pyramid's peak, while lower levels are occupied by managers and employees who generally are expected to follow orders issued by the topmost officials. This is hierarchical organization. A second kind of organizational design is made possible by marshalling the collective technological skills of the firm's workforce, with the goal of coordinating and focusing these professional talents in ways that accomplish the company's goals. This is technological organization. A third, less well-known way of organizing a business firm's economic activities relies on nonlinear, complex, or at times even chaotic systems that are constantly open to unexpected change, innovation, and new discoveries. This is complex organization.

All decisions made by the directors, executives, managers, and employees of the business firm are heavily influenced by these three inherited organizational patterns. The principal decision-makers are mainly powerful alpha males at the pyramid's top level. They tend to be dominant over all others, aggressive, and highly competitive—but also pragmatically collaborative in their dealings with employees and with competing companies or government regulators. Technological skills and talents that lead to new innovative products are respected and rewarded. Complex, ever-changing markets require rapid, sometimes radical, reorganization and redefinition of a company's goals.

In these ways, a business firm's decision system reflects an ancient behavioral heritage—but one that supports its continuing existence.

## Strategy

Strategy is a business firm's way of gaining an advantage for itself over marketplace rivals, competitors, government regulators, or other power centers. The many ways of doing so, by identifying key factors both inside and outside the company, is the work of strategic thinkers.

Strategy for the natural firm involves integrating the various phases of the **Evolutionary Cascade** into the firm's operations. That means finding and utilizing essential energy sources, adjusting its economizing actions to the potentials and limits of the ecosystems in which it operates, recognizing the genetic components of human behavior, accepting the

selection power of natural forces, acknowledging the inherited behavioral traits of human beings, respecting the human brain's neural modules that shape workplace behaviors, understanding the reach and range of symbolic culture, knowing the firm's organizational patterns and the market's potentials and constraints, and accepting the realms of responsibility and responsiveness that accompany a business firm's activities as it pursues an adaptive economizing-ecologizing strategy.

The strategic maneuvers of the natural business firm can succeed only if it focuses prime attention on the physical-chemical-organic-symbolic-market environment that gives the firm—and all life forms—an ability to adapt, survive, and achieve its natural potential.

### Corporate purpose

The natural business firm's broader purpose or meaning contrasts strikingly with what is normally believed to be a company's economic market function. Conventionally, the business firm is seen in strictly instrumental terms—as a useful, practical way of providing goods and services to a public willing to pay for them. As such, the firm has indeed long contributed to the economic well-being of human society. Without rejecting this standard meaning of business's purpose, the natural theory of the firm proposes a more fundamental concept of corporate meaning and purpose.

The basic idea can be expressed as a formula: Corporate Purpose = (f) Cosmic Evolution, which simply means that a corporation's purpose is a function of cosmic evolution as described in the chapters of this book.

Cosmic evolution here refers to all phases of the **Evolutionary Cascade**—beginning with the Big Bang and continuing onward through time to the present and on into the future. The natural firm is one outcome of that long evolutionary pathway from past to present. The firm sustains itself and countless others through its economizing operations. It also displays a potential ability to spread its economic benefits more widely by adopting an ecologizing philosophy plus an organic strategy to move in that direction. The managers of the modern natural corporation sense, whether explicitly or intuitively, that corporate purpose is broader and deeper in scope, function, and community commitment than conventionally believed. Managers' goals, functions, organizational designs, decisions, and strategies are part of an ancient and ever-widening arc

of evolutionary development—literally, an evolution of cosmic proportions—creating a cumulative, nested set of natural processes that define the overall purpose of the natural firm.

The major components of a natural theory of the firm are summarized in the accompanying box (see next page).