TOWARD A "WE"-MODE TEAM PRODUCTION THEORY OF THE FIRM: A CONFUCIAN APPROACH

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Abstract:
Blair and Stout's (1999) team production model of the corporation (TPM) has become an attractive alternative to principal-agent models of the corporation. TPM literature has been developed to address opportunism, that is, problems of exploiting one's position within an organization to acquire a benefit without giving anything (e.g., firm-specific investments) in exchange. The problems of team production have prompted a revival of the concept of authority within firms. We maintain, however, that the prevailing conception of authority in the TPM literature is market-based and therefore fails to reflect some powerful ways to address team production problems through a properly thick concept of authority. In particular, we maintain that Blair and Stout's TPM model does not adequately encourage team-specific commitments and fails to acknowledge the full prescriptive and descriptive potential of the TPM paradigm. We offer an alternative conception of authority in team production: a Confucian communitarian account of the internal workings of a firm, including the production team and the hierarchy endowed with the authority to govern it. On the standard market-based view of the team and its attendant conception of authority, each team member uses the team and its authority as an instrument for advancing her own personal interests. On our Confucian alternative, team production members see the team itself as inherently valuable and create team-specific commitments; they act for the team's sake, and not merely for their own.

One hundred years ago, Max Weber in *Religion of China* (1915/1951) conjectured that Confucianism would not bring about economic development. He asserted that the philosophy limits the separateness of individuals and each individual's calculative rationality, which he famously theorized as a key explanation for the industrialization of Europe and capitalism (Weber 1904-5). Yet, had Weber lived to see contemporary East Asian societies, as Peter Berger (1988: 7) once imagined, Weber would say, "Well, I was wrong!" Echoing this reality, the Harvard philosopher Weiming Tu (1988, 1989, 1996, 2000) and the futurologist Herman Kahn (1979) argued that Confucianism's team-oriented values including role obligations, authority, and harmony are major factors in explaining the rise of industrial East Asia (see also Hofstede and Bond 1988; Hofstede 1980, 2007, 2011).

The Confucian perspective focuses on relationships, groups, and organizations, not the discrete individual. This perspective aligns well with recent advances in Western business research, including theories of the firm, theories of strategic management, and theories of corporate governance (Lau and Young 2013), which recognize the fundamental role that "team production" plays in firms (Alchian and Demsetz 1972; Blair and Stout 1999; Foss and Lindenberg 2013; Lan and Heracleous 2010), and which

recognize the importance of "firm-specific commitments" that various constituents make as strategic resources and (dynamic) capabilities (Klein, Mahoney, McGaha, and Pitelis 2012; Mahoney 2012; Lindenberg and Foss 2011; Mahoney and Kor 2015; Rajan and Zingales 1998, 2001; Wang, Zhao, and Chen 2016).

A defining task of of the team production model of the corporation (TPM; e.g., Alchian and Demsetz 1972; Blair and Stout 1999) and theories of the firm more generally is addressing problems of opportunism, that is, problems of exploiting one's position within an organization to acquire a benefit without giving anything in exchange. In particular, TPM literature is developed to address opportunism in the so-called team production contexts where there is strong outcome interdependence, wherein complex inputs from a number of different team members make it difficult to specify each member's discrete contribution and to encourage team-specific investments (see Machold et al. 2011). To address the problems of team production, the concept of authority, which Coase (1937) posited makes firms distinct from the market, has been revived (Blair and Stout 1999; Conner and Prahalad 1996; Rajan and Zingales 1998). We maintain that the prevailing conception of authority in the TPM literature is market-based and therefore fails to reflect some powerful ways to address team production problems through authority. In particular, we maintain that Blair and Stout's (1991) disputes-oriented model—incorporating a conflict-centric focus—does not fully describe the scope of management's power to encourage team-specific commitments and thus does not reach the full potential of the team production paradgim. We will maintain that the model of the team in TPM should become more Confucian. Becoming more Confucian means not only incorporating certain elements of Confucian thought, but also more freely viewing the task of a 'theory of the firm' as not exclusively normative or descriptive but as incorporating elements of both, as a Confucian would.

The primary contribution that we make in this article is to offer an alternative conception of authority in TPM. In doing so, we invoke philosophical tradition contained in Confucianism. We argue for a distinctively Confucian communitarian interpretation of the internal workings of a firm, including the production team, hierarchy and authority, and the process from which they emerge. In the standard

market model of the team and its authority (Alchian and Demsetz 1972; Blair and Stout 1999), each team member uses the team and its authority as an instrument for advancing her own personal interests; the team and its authority are instrumentally valuable. On our Confucian alternative, team members see the team itself as inherently valuable and are encouraged to create team-specific investments; they act for the team's sake, not merely their own. A firm's management, on this Confucian view, must do a lot more than find mutually beneficial ways for firm members to advance their personal good or their interests as they might conceive them before joining the firm. Instead management should function much like the leader of an improvisational jazz ensemble, facilitating its members in creating a good that brings members together as a community (Ivanhoe 2013). Credible authority for managerial leadership, we argue, emerges from its role in identifying and fostering a distinctive team good. By thus locating the role of managerial leadership, we apply a conception of the firm developed by other management theorists (Donaldson 2012; Freeman 1994; Wicks 1996), which regards normative and empirical elements of the firm as ineluctably entangled and which rejects attempts to disentangle these elements as unrealistic. The management and economics literatures, despite often invoking authority, have largely ignored philosophical concepts of authority. Though Western philosophers have interrogated normativized conceptions of managerial authority (Anderson 2017; Maclagan 2007; McMahon 1989), invoking most notably the classic Western conflict between autonomy and authority (Lee 2018), we look to Confucian philosophy for a new perspective, which offers a positive view of authority and hierarchy as enhancing community and elevating the virtuous.

Our focus is large, publicly traded business firms, such as Toyota, Microsoft, and Merck, but our discussion has implications beyond such firms. In Toyota and other large publicly traded firms, authority functions through hierarchical governance structures, including relationships between board and managers. Not all business organizations are hierarchical to the same extent as Toyota, however. Co-ops and joint ventures, for example, are less hierarchical. Even in these less hierarchical firms, at least when they have significant complexity, authority exists: operational efficiency requires that a person gets assigned the role of decision-maker within the organization; some individual, for example, must make

practical decisions about how to allocate resources within the organization. By illuminating the structure of authority, studying hierarchical firms has implications for understanding the role of authority in less hierarchical firms.

Our second contribution is to strengthen earlier research that criticizes individualism (e.g., Etzioni 1988; Grant and Patil 2012; Perrow 1986; Rocha and Ghoshal 2006; Sen 1977). We show that what holds the decent firm together and makes it succeed cannot be captured by the concept of self-interest. The Confucian concept of the organizational self that we develop provides that what makes a person in a firm distinctive from a person in a market is her capacity to have what we shall call "we"-mode intentions and motivations. We also show that organizational ritual is a powerful way for self-interested individuals in a market to become team members. Hence, the Confucian concept of leadership that we advocate is transformational in the sense that it proposes that self-interested market-persons become members of organizations, conceiving of themselves from a "we" perspective rather than merely from an "I" perspective.

Finally, we contribute to the comparative and cross-cultural literature (Adler 1983; Chen and Miller 2010). We bring a cross-cultural perspective that helps Western researchers distance themselves from their own situation to see the team production problem from a Confucian perspective, while helping Easterners to understand the team production problem through the lens of their own traditions. We hope that our comparative perspective brings renewed interest to the idea that within an organization, individual identity can be logically intertwined with community membership and that what we shall call a "we"-mode identity is an effective solution to the team production problem and thus an important reason that firms should exist.

In Section 1, we review the TPM tradition, explaining why team production is a perspective important to understanding the nature of a firm. In Section 2, we explain why the existing market-based view of authority in TPM has limitations to serve their roles. In Section 3, we offer a Confucian alternative "we"-mode conception of team production and authority. In Sections 4 and 5, we strengthen the Confucian "we"-mode conception of TPM by discussing contemporary research that supports the

Confucian "we"-mode TPM and how to facilitate the model. Finally, we discuss the limitations of this article and conclude.

1. BACKGROUND: THE RISE, FALL AND RETURN OF HIERARCHY

Coase (1937) recognized both (1) the importance of hierarchy in explanations of firm activity and (2) the limits of markets in explanations of firm activity. He observed that the "invisible hand" (Smith 1776) has limited explanatory power with respect to the internal workings of a firm, because firms are not markets but hierarchies directed by authority: "If a workman moves from department *Y* to department *X*, he does not go because of a change in relative prices, but because he is ordered to do so" (Coase 1937: 387). As we soon discuss, Simon (1957) endorses a conception of authority—one which takes authority to provide distinctive reasons for action independent of other considerations (See also Chandler 1977; Conner and Prahalad 1996: Appendix; Williamson 1975).

In 1970s, researchers strayed from Coase's (1937) ideas about hierarchy, wringing new life out of the "invisible hand." Notably, Alchian and Demsetz maintained that hierarchy and authority are market transactions in disguise. They wrote:

> It is common to see the firm characterized by the power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market. This is delusion…To speak of managing, directing, or assigning workers to various tasks is a deceptive way of noting that the employer continually is involved in renegotiation of contracts in terms that must be acceptable to both parties… Telling an employee to type this letter rather than to file that document is like my telling a grocer to sell me this brand of tuna rather than that brand of bread (1972: 777).

Alchian and Demsetz's market approach had the large advantage of motivating researchers to think hard about the role of incentives within organizations. A market model of the firm, in which the firm is viewed as a nexus of contracts, served as a platform for devising such incentive structures.

Jensen and Meckling (1976, 1978) further developed the nexus of contracts view. A cardinal issue for Jensen and Meckling (1976) was the agency problem: how to best incentivize managers to serve the interests of shareholders. To solve this problem, theorists proposed constructing contracts that align the self-interests of managers and shareholders. Their approach came to dominate work on the theory of the firm and governance (Eisenhardt 1989; Shleifer and Vishny 1997).

Confucian theory of the firm

Agency theory has its value: It contributes to understanding of opportunism and its mitigation. That value is limited, however, because agency theory relies on a conception of contracts that neglects essential features of firm phenomena. First, agency theory relies on contracts that are incomplete in ways that limit their explanatory value. Even agency theorists acknowledge that firm contracts must be incomplete because not all contingencies can be anticipated (Grossman and Hart 1986; Hart and Moore 1990). How should managers respond when they face contingencies not covered in contract? Clearly agency theory requires a value outside contractual fidelity to answer this question. We will suggest that the needed value derives from the realm of hierarchy and takes the form of a thick conception of authority. Second, agency theory focuses on contracts between managers and shareholders, but such contracts hardly cover the spectrum of important managerial relations. In the contemporary business environment in which knowledge-based resources (Mayer, Salomon, and Williamson 2012; Wang, He, and Mahoney 2009), relational capabilities (Dyer and Singh 1998; Orts 2013), and social capital (Adler and Kwon 2002; Nahapiet and Ghoshal 1998) are increasingly important, agency theory's focus on financiers neglects the strategic importance of constituencies other than shareholders who provide firm-specific resources (Asher, Mahoney, and Mahoney 2005; Foss and Foss 2005; Mahoney 2012; Kim and Mahoney 2005; Mahoney and Kor 2015; Orts 2013; Wang et al. 2016), which have been regarded as crucial factors in capturing and sustaining competitive advantage (Barney 1991; Nelson and Winter 1982; Teece, Pisano, and Shuen 1997; Wang and Barney 2006). We suggest that managerial relationships involve a more complex web of people and roles than agency theory recognizes. These limits − the incompleteness of contracts, the importance of non-shareholders, and the existence of non-agential relations in the firm − raise doubts about the prospects of agency theory for a complete explanation of corporate phenomena.

Aware of the limits of agency theory, a new wave of theorists (Blair and Stout 1999; Lan and Heracleous 2010; Mahoney and Kor 2015; Rajan and Zingales 1998) developed an approach that preserves Coase's (1937) original insight that firms are hierarchies outside the market, not merely collections of contracts. Borrowing a phrase from Alchian and Demsetz (1972), "team production" scholars view the firm as a *team*. Its members include managers, employees, financiers, and others who

contribute inputs to the success of the firm. By working together, team members create a cooperative surplus, wealth. The team faces two important sets of problems: how to divide the cooperative surplus, and how to encourage the contributions of team members. In team production, "it is difficult, solely by observing total output, to either define or determine each individual's contribution to this output of the cooperating inputs" (Alchian and Demsetz 1972: 779). Alchian and Demsetz were aware of the allocation problem and offered their own solution to it, a solution that eschewed hierarchy. They stipulated the existence of a contract through which a class of team member − e.g., the shareholders − becomes a "monitor" that has authority to fire and hire; the monitor, in turn, would be compensated from the residual that remained after the team's members were compensated. Alchian and Demsetz's theory of team production views firms as extensions of market transactions. Each member of the team pursues only her own interest, but interests of team members are intertwined through market mechanisms, so it is in the interests of team members to work together and help one another. Alchian and Demsetz's emphasis on the 'monitor' influenced agency theorists who argued that shareholders must be the monitors (e.g., Jensen and Meckling 1976).

Blair and Stout (1999) reject agency theorists' solution to the team production problems. They point out that, in reality, shareholders do not exercise rights to hire, fire, or control assets; therefore, shareholders cannot play the authoritative monitoring role that Alchian and Demsetz (1972) attribute to them. According to Blair and Stout, it is the corporate board, acting on behalf of the corporations itself, that executes the role as monitor. Blair and Stout explain:

> The board enjoys ultimate decisionmaking authority to select future corporate officers and directors, to determine the use of corporate assets, and to serve as an internal "court of appeals" to resolve disputes that may arise among team members… Knowing that incorporating means losing influence over the corporation's future and over the division of the rents the corporation generates, why would any of the team members do this? The answer is that team members understand they would be far less likely to elicit the full cooperation and firm-specific investment of other members if they did not give up control rights…This analysis suggests that hierarchy can perform a third function in addition to the two economists have identified (streamlining information-gathering and decisionmaking, and controlling shirking through the cascade of sequential principal-agent contracts). This third function is *encouraging firm-specific investment in team production by mediating disputes among team members about the allocation of duties and rewards* (1999: 277-8).

We agree with Blair and Stout's restoration of hierarchy and authority in the firm. Accordingly, we define governance broadly, following Tirole (2001: 4) who says,

> "The traditional shareholder value approach is too narrow a view for an economic analysis of corporate governance. I will, perhaps, unconventionally for an economist, define corporate governance as the design of institutions that induce or force management to internalize the welfare of stakeholders."

We, however, have a doubt about Blair and Stout's (1999) theory. Their theory gets stuck in the rut of Alchian and Demsetz's (1972) market approach. In the next section we explain the rut and offer a strategy to vindicate the team production model by exiting the rut.

2. THE PROBLEM: ALCHIAN AND DEMSETZ'S RUT

Blair and Stout's (1999) TPM revives Coase's (1937) question: under what conditions should we expect authority to emerge in a firm to encourage firm-specific investments? Blair and Stout's (1999) answer is market-oriented: authority emerges when it is useful in advancing team members' self-interest. They maintain, "team members intuitively understand that it will be difficult to convince others to invest firm-specific resources in team production if shirking and rent-seeking go uncontrolled. Thus, they realize that it is in their own self-interest to create a higher authority − a hierarchy − that can limit shirking and deter rent-seeking behavior among team members. In other words, each team member submits to hierarchy not for the hierarchy's benefit, but for their own" (Blair and Stout 1999: 274). As Blair and Stout acknowledge, their answer is Hobbesian:

> This basic idea is central to much modern political theory, and can be traced back at least to Thomas Hobbes['s]….notion that people might submit themselves to a coercive monarch in order to avoid the "warre of every one against every one"…His proposed solution parallels our own…(1999; f 54).[i]

Hobbes's idea is that authority arises out of the self-interested need for a ruler.[ii] Blair and Stout (1999) revive Coase's insight about hierarchy and authority but get mired in Alchian and Demsetz's (1972) rut. They contend that authority should be understood in terms of a deal, a market transaction, which aims at advancing the self-interests of involved parties. But that contention proves inconsistent with their own analysis of the authority relationship within the firm, we will maintain.

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The inherent nature of authority is in tension with market analysis. Authority is by nature related to a *duty* to obey directives for reasons that cannot be reduced to advancing self-interest. It is a well-established idea in ethics, political philosophy and legal theory that in a just society one has authority over another person only if, when one gives that person an order, the fact that one gives the order provides the person with a reason to think that compliance is the right response (e.g., Rawls 1996; Perry 2013). In management literature, Simon (1957) reflects this conception of authority when he says, "An individual accepts authority when he sets himself a general rule that permits the communicated decision of another to guide his own choice (i.e., to serve as a premise of that choice) *independently of his judgment of this correctness or acceptability of the premise*" (italics ours). If, as Alchian and Demsetz (1972), along with Blair and Stout (1999), suggest, members of a production team obey an order only for instrumental reasons, that is, only to advance their own self-interest, they do not act out of respect for authority but out of prudence. When team members are motivated solely by prudence or self-interest, problems arise. A team member who observes a divergence between his personal interests and team interests will seek to advance his interests at the expense of team interests. Ample theoretical reflection and empirical evidence suggests that no matter how much organizational engineering one does, it will be impossible to eliminate a divergence between such personal interests and team interests, and excessively costly to try (e.g., Bridoux, Coeurderoy, and Durand 2011; Bridoux and Stoelhorst 2016; Eisenhardt 1989; Feher and Fischbacher 2002; Holmström and Milgrom 1991; Kollock 1998; Olson 1965; Ostrom 2000; Perrow 1986; Sweeney 1973). The instrumentalist, limited by his conception of the self-interested motivation of team members, cannot explain how to effectively encourage firm-specific investments and construct an optimal production team. If a contract-based self-interested approach like that of Alchian and Demsetz is not sufficient to ground the firm, then we need a firm theory that conceives of authority as a power that supersedes self-interest. Despite their laudable efforts, Blair and Stout (1999) have failed to do this.

There is a way out of the problems arising from instrumentalism for team production theory. Indeed, Blair and Stout (2001) themselves, in a departure from their seminal TPM paper (Blair and Stout

1999), point to the way out of the problem, when they suggest that it is a mistake for theorists of the firm to assume a self-interested model of human behavior. We concur with Blair and Stout (2001) and offer a development of their suggestion. As we soon contend, there exist excellent non-self-interested reasons for individuals within an organization to deliberate from a team perspective rather than from a purely self-interested perspective. As we will also contend, deliberation that takes seriously the team perspective rather than a purely individualistic perspective requires recognizing the presumptive authority of team leaders. When one takes the team perspective seriously, one's reason for opportunistic behavior dissipates, as opportunistic behavior would undermine team interests. Taking the team perspective seriously, in a sense we soon define, results in a production team that is better than the instrumentalist version. Why should an individual take the team perspective seriously? In what follows, we explain.

3. A SOLUTION: A CONFUCIAN "WE"-MODE TEAM PRODUCTION

For thousands of years, Confucianism has explored the nature of authority in hierarchy (Ames 1988; Angle 2009, 2012; Bell 2008; Chan 2014; Hahm 2003; Creel 1970; Elstein 2009; Graham 2003; Ivanhoe and Kim 2016; Kim and Strudler 2012; Pines 2002, 2013). A distinctive feature of Confucianism is its "frank acceptance of hierarchy and authority as a necessary and even good aspect of a civilized and harmonious society" (Schwartz 1985: 68; see also Angle et al. 2017; Rosemont 1991, 2015; Tu 1988, 1997, 2002). What, then, does Confucian theory say about the source of authority? It gives a non-market answer: authority in a hierarchy is a moral power (Angle 2009, 2012; Bell 2008, 2015; Chan 2014; Graham 2003; Ivanhoe 2000, 2007; Kennedy, Kim, and Strudler 2016; Poo 1998; Schwartz 1985; Tan 2010; Tiwald 2008). Authority emerges not, as Hobbes sees it, from an individual's pursuit of his self-interest. Instead, authority emerges when an individual sees his interest as merged into a community's interest and recognizes the necessity of authoritative leadership as the articulation of that community interest. Thus, on the Confucian view, strangers in a market may join a production team motivated by self-interest, but authority emerges when individuals shift gears, moving from a self-interested mindset to a communitarian mindset; authority grows to the extent that it helps market strangers become committed team members.

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Early Confucians, including Confucius himself, Mencius, and Xunzi, defended a moralized view of authority; the moralized view stood in contrast to ancient Chinese society's aristocratic belief that authority in hierarchy derives from pedigree (Allan 2015; Creel 1970; Pines 2013). Throughout Chinese history, the moralized view of authority became further developed through two major Confucian notions: "Elevating the Worthy" (*shang xian* 尚賢) − the morally legitimate should be the authority (Pines 2002, 2013) − and "Heaven's Mandate" (*tianming* 天命) − Heaven grants authority to the legitimate, and if the authority loses its moral legitimacy, Heaven will seek and move on to the legitimate (Chan 2014; Ivanhoe 2007). Soon we explain the distinctive moral power Confucians find.

For Confucianism, what makes us distinctively human is the individual's ability to conceive of her interests not purely in terms of her personal self but instead in terms that include a relational and communal self (Kim and Strudler 2012; Kim 2014). Etymologically, the meaning of humanness (*ren* 仁) is "two people." The Confucian's recognition of the importance of the communal self requires a distinctive perspective on authority. At least since the time of the Enlightenment theorist Rousseau (1762/1987), much work in philosophy and the social sciences concurs that it is possible to deliberate in a "we-mode" (Sellars 1967; Bacharach 2006; Gilbert 2000; Gold and Sugden 2007; Sugden 2005; Tuomela 2007), in which a person conceives of her interest not individually but instead in terms of a group with which she identifies. In this tradition, borrowing terminology from Tuomela (2007), we will say that a person has a choice about whether to reason in terms of her personal interests—that is, in an "I-mode"—or whether to reason in terms of community interests—that is, in a "we-mode."

Confucian "we"-mode selves support but are distinct from the general research on cooperative behaviors. A team for the general research is a set of fluid and interrelated "I"-mode selves who see themselves as relational contractors who want to respect norms of reciprocity (give-and-take; e.g., Grant 2013). The Confucian team is a set of 'we'-mode selves who are not just more fluid and interrelated than the "I"-mode selves, but reason and behave without the "I"-mode perspective, but with the "we"-intentionality. The Confucian "we"-mode selves see themselves as constitutive elements of a new

emerging whole entity. "We-mode" reasoning may seem peculiar, but we think that it is, in fact, common. Salient examples of "we-mode" reasoning occur in sports. Members of sports teams wish to see the team as a whole perform well and are not merely concerned with their own performance or even how the team's performance reflects on individual members of the team. Consider the Confucian philosopher Craig Ihara's (2004) basketball team spirit:

> On sports teams, say basketball, people have assigned roles appropriate to their various talents. A point guard is, among other things, in charge of running the offense, doing most of the ball handling, setting up plays, and getting the ball to people in scoring position. A center, usually the tallest player on the team, is responsible for dominating the area under the basket, rebounding, blocking shots, and scoring from inside. Suppose that on a specific occasion, the point guard fails to pass the ball to the center who is wide open under the opposing team's basket. What might one say? That the point guard made a mistake, did something wrong or incorrect, did not do what she was supposed to, failed to do her job, messed up, or fouled up. If, for whatever reason, she regularly misses such opportunities, she can be regarded as a poor or bad point guard and is likely to lose her position. Other members of the team can legitimately complain about her incompetence, lack of court sense, or selfishness, although in the name of team spirit they should not be too quick to criticize (11).

In the basketball context players ideally act in the "we-mode." For example, the center does not say that the point guard infringes her contractual/property right or does not optimally maximize her interests when the point guard fails to properly pass her the ball. For any team member to view the game simply in terms of whether her interests are maximized would undermine the foundation of the team (Strudler 2008). We do not mean to suggest that excellent team members must always ignore their purely personal interests; there is room within a player's utility function for both individual and team interests. Hence a basketball player may reasonably act to avoid risking a concussion even when doing so might get the team the few extra points it would take to win the championship game. Still, a player who focuses only on his own interests is a failed player (Jackson 2013).

Ihara's (2004) discussion of a basketball team serves as a reminder that joining a team in sports can be a transformative experience. One comes to see value not merely in one's own personal achievements but also in the team's achievements. Put differently, the preferences in one's utility function shifts from focus on oneself to focus on one's team. We do not maintain that everybody who joins a team becomes a team player. Instead we suggest that the transformation to a team player is a possibility, the

sort of possibility that the Confucian invokes as essential to fulfillment of one's humanity. Moreover, there is much theoretical and empirical evidence that this sort of transformation occurs (see Section 5). Interestingly, Blair and Stout came to acknowledge the phenomena of shifting from the "I-mode" to the "we-mode." They explain that when people join teams, it may have the effect of "enhancing feelings of group identity" (2001: 1735) that lead to increased cooperation, not because cooperation leads to individual advantage, but because it helps the group as a whole attain its ends. In our terms, Blair and Stout are observing the shift from "I-mode" to the "we-mode," not in basketball teams, but in the production teams that comprise business organizations.

Suppose, then, that the "we-mode" is a real possibility. The implications for authority and governance seem plain. In the sports realm, for example, team members must recognize the authority of their coach. Nothing as complex as a sports team can exist without a leader, so to join a team is to recognize the importance of leadership and, thus, to recognize one's own reason to follow the direction of the leader. In relevant respects, a production team is like a sports team. In both cases, team members have obligations to fulfill their roles on the team − call these *role obligations*. Just as the coach has distinctive role obligations, the board and derivatively higher-ranking individuals in the firm, e.g., a CEO, have their own distinctive role-obligations. For the board (and derivatively a CEO) to fulfill its role obligations, it must have authority: the board's authority to allocate assets and revenues that various team members make through firm-specific investments creates the possibility of an effective and flourishing production team that minimizes opportunism, and creating such a team is the board's role in Blair and Stout's (1999) model. By deferring to the board's authority, team members acting together create value that could not be created without the authority, no matter how prodigious the talents of individuals outside team settings. The source of the authority in the firm is, then, the "we"-mode in business: team production itself.

The Confucian view offers a distinctive account of the nature of authority within a firm. It does not identify authority instrumentally: as a tool for advancing the pre-existing interests of the individuals that comprise the firm. Instead it identifies authority transformationally: as a way for members of a firm to realize a new set of interests, the interests they have as members of a community, the firm. Put

differently, the instrumentalist account explains authority in terms of its role in achieving good aims as one sees them before joining the firm; the transformational account explains authority in terms of its role in achieving an elevated set of good aims inherently tied to the community of the firm.

A person's interests are inherently tied to what she sees as good for herself (Feinberg 1986). If a person joins a firm simply in order to enlarge her bank account so that she can buy status goods, then she is motivated by narrow self-interest and has a materialistic conception of what is good for her. Not all people meet this description. When Roy Vagelos was CEO at Merck, he had to make a decision about whether to pursue the development of Ivermectin, a drug with important health benefits for people stricken with River Blindness in sub-Saharan Africa. Vagelos recognized that the drug that would produce only uncertain financial advantages for the firm (e.g., Hanson and Weiss 1991). In making his decision, one of Vagelos's concerns was his employees' motivations. Vagelos observed that his employees chose to work at Merck not because they were motivated by narrow self-interest and a materialistic conception of the good; instead he believed that his employees were motivated by desire to achieve a good that transcended their individual interests. Vagelos conceived of his role, as a leader at Merck, as requiring him to find a way to unite his employees in achieving such good. He chose to execute the Ivermectin project, at least in part, because doing so allowed him to carry out this role. Vagelos, in our view, acted as an excellent Confucian leader would; he moved Merck closer to the idea of a Confucian team production model. He orchestrated his employees so that they could cooperate in creating a good that transcended their own interests.

The Confucian model of the corporation that we outline confirms ideas articulated by Freeman and others (Freeman 1994, 2000; Wicks 1996; Freeman, Wicks, and Parmar 2004; Harris and Freeman 2008; Freeman et al. 2010), who maintain that an accurate description of the firm must contain both normative and descriptive elements. In this respect, the concept of the corporation is not unique. Both the fields of anthropology (Geertz 1973) and philosophy (Ryle 1968; Williams 1981) recognize many concepts are "thick," in the sense that they cannot be reduced to either purely descriptive or purely normative elements (see also Kim and Donaldson 2018). Indeed, we maintain that a TPM model, as developed by Blair and

Stout (1999), must be understood as a thick concept because it contains both a normative commitment to a "fair" resolution of disputes among team members and a description of the incentive effects of the relationship between the corporate board and corporate stakeholders: "When disputes arise, however, they want a decision-making procedure in place that all believe will be fair. The solution? They form a public corporation" (Blair and Stout 1999: 326).

Because they maintain that a commitment to "fairly" balancing interests among stakeholders will result in a firm that is more profitable for shareholders, Blair and Stout's model contains both descriptive components (a picture of the firm as a hierarchal structure) and normative ideas (the idea that the firm ought to balance interests "fairly"). Blair and Stout thus implicitly treat the concept of the firm as thick (see Kostant 2001; Alces 2014). We do so explicitly, because we see it as inextricably tied to both normative and descriptive elements (Donaldson 2012).[iii] We differ from Blair and Stout, however, on the nature of these elements. Blair and Stout see the corporate board as leading the firm by "mediating disputes among team members about the allocation of duties and rewards…." (1999: 278). Their model as stated is consistent with the idea that the board works with conflicts of pre-existing interests among team members, and merely looks for optimal resolution of these conflicts. By contrast, we see the function of leadership in the firm, whether exercised by the corporate board or other levels of management, as introducing new interests for team members, interests that might be articulated at a community level rather than individually. In the case of Merck, for example, Vagelos promoted the idea that the firm as a whole could do something good that would unify the firm, namely, introduce Ivermectin into the sub-Saharan African population and fight River Blindness.

Our Confucian team production theory, like Blair and Stout's (1999) team production theory, reserves a specific role for corporate boards. In line with other Hobbesian firm-theoretic approaches (Elson and Ferrere 2013), they see the Board as mediating disputes and conflicting interests among corporate team members. We see the Board as instead finding and promoting a vision that transforms and unifies the interests of team members and by doing so encourages firm-specific investments. Blair and Stout (1999) see the board as the referee of a boxing match. Confucians see the board as like the leader of

a jazz ensemble, someone who fosters others in making their own distinctive contribution to a group performance. As Ivanhoe (2013) explains, Confucians regard leaders as pursuing a harmonious good that reflects the diversity of those with whom she engages:

> [A] good leader . . . find[s] ways to bring together different and distinct views just as a great cook counterbalances and blends different tastes or a great composer harmonizes different sounds. Harmony requires the preservation of diversity and contrast (f5, Ch. 4).

The Board may pursue the good for the firm and even the good for society more generally in ways that respond to the emerging concerns and aspirations of the diverse variety of involved stakeholders. The good that the Board pursues is thus not an entity whose content or identity is fixed antecedently to Board interactions with stakeholders. Instead it is a good that emerges through the process of conversation among stakeholders, a process, as pragmatist philosopher Richard Rorty (1989) explains, that generally underlies constructive politics. By insisting on the role of the firm in fostering a communal good, we do not wish to suggest that Blair and Stout's (1999) model is obsolete. Conflict may well be unavoidable within the firm (as biologist and author E.O. Wilson (2014: 177) notes, "we are addicted to tribal conflict"), and Blair and Stout's (1999) model depicts it well. Nonetheless, we suggest the importance of expanding the TPM to consider more than conflict.

4. HOW TO FACILITATE "WE"-MODE TEAM PRODUCTION: A CONFUCIAN ANSWER

So far, we have investigated the connection between the "we"-mode, authority, and opportunism — roughly, once the "we"-mode emerges, authority emerges, and it coordinates team members' motivations in ways that avoid opportunism and encourage firm-specific investments. But we have not discussed how the "we" mode emerges so that authority emerges in a team production. We must explain how individual Hobbesian parties, who decide to enter a team production to advance their self-interests, once they enter the team production context, shift from the "I"-mode to the "we"-mode. Our explanation revolves around the idea of corporate ritual (Deal and Kennedy 1981, 1999; Islam and Zyphur 2009; Trice and Beyer 1984, 1991). If Confucius were alive today contemplating the contemporary firm, he might be drawn to the following questions: If a set of employment contracts is the only source of conferring authority to the board and, derivatively, to higher-ranking individuals, why do firms invest

valuable corporate assets in rituals such as annual shareholder meetings, Chair/CEO inauguration ceremonies, or welcoming ceremonies for new employees (Bolman and Deal 1992; Deal and Kennedy 1981; Guenzi 2013; Islam and Zyphur 2009; Pfeffer 1981; Trice and Beyer 1984, 1991; Trice, Belasco, and Alutto 1969)? If an expiration of a contract is the source of ceasing to grant authority to the board member or other higher-ranking individuals, why do firms invest their resources in rituals such as rites of degradation, farewell, or retirement ceremonies? If the foundation of the authority is simply a collection of contracts, a merger between two firms could be achieved by writing a contract between the two firms that specifies who gets the authority. Why do merging firms put so much cultural effort, including various rituals, into combining the two authorities (Deal and Kennedy 1999; Schein 2010)? More fundamentally, why are there so many firm rituals, which Trice and Beyer (1984, 1991) conceptualized as "rites of passage," "rites of degradation," "rites of enhancement," "rites of renewal," "rites of conflict reduction," and "rites of integration" (Trice and Beyer 1984, 1991)? The documentation of organizational ritual is extensive, and the organizational theory surrounding it is rich (for a review, see Islam and Zyphur 2009). A Confucian answer for the phenomenon of organizational ritual is that it is deeply related to the formation of authority in team production to solve team production problems.

A core idea that permeates Confucian theory is that ritual serves to create and nurture a family- or sports team-like "we"-mode environment, through which members identify themselves with their groups by realizing that they have, as team members, role-obligations to achieve team goals (Bell 2008; Fan 2012; Fingarette 1972; Van Norden 2002; Woodruff 2001; Zhang 2012). By doing so, rituals confirm for team members an understanding of their roles and associated obligations within the social world (Iltis 2012). Rituals change team members' identities, outside the boundaries of the organizational or team production activity (Alvesson and Kärreman 2007; Ashforth and Mael 1989; Bauer, Morrison, and Callister 1998; Van Maanen and Schein 1979). Rituals' role in creating and sustaining organizational identity has been recognized in management theory (Erhardt, Martin-Rios, and Heckscher 2016). In short, "[r]itual unites and it divides" (Engelhardt 2012: 29). Rituals create the boundaries of the team production and the firm itself.

Confucian theory of the firm

Rituals also sustain a social reality (Ing 2012; Puett and Gross-Loh 2016; Seligman, Weller, Puett, and Simon 2008). According to Seligman et al. (2008), the Confucian tradition believed that ritual functions to nurture "order, hierarchy, principle, and ethics to a world that is otherwise chaotic, amoral, and indifferent—to live *as if* the world were actually a moral, coherent universe" (20). This Confucian view about the social function of ritual is also corroborated by Western anthropologists' views that ritual creates a social reality distinct from the enacted individualist world (Bell 2009; Goffman 1967; Rappaport 1999; Turner 1982), as well as by those held by sociologists who explore how social order is maintained and how meaning is created at work (Durkheim 1915; Miller 1985). If, for example, Alchian and Demsetz's (1972) leaders regularly observed ritual (e.g., a kind of inauguration ritual) with their new manager in which the workers bonded and came to appreciate the possibility of a collective accomplishment, their doing so would not involve physical change, yet it could create a social world distinct from individualistic world with which they began. The process should seem familiar to anyone who has seen a group of recruits transformed into a sports team or a collection of individual musicians transformed into an orchestra.

The Confucian view accordingly suggests that the board and, derivatively, corporate managers can strengthen authority over various stakeholders such as shareholders, in practice. This can happen if stakeholders regularly observe rituals with the board or corporate managers in which stakeholders socialize themselves to create and nurture the "we"-framed identity, believing that they are performing a team production activity together with the board and corporate managers. This conception leverages managers' recognized symbolic role and function in legitimizing their organizational power (Pfeffer 1981; Jongbloed and Frost 1985; Brown 1994). Take, for instance, Berkshire Hathway's ritual of the annual shareholder meeting, in which shareholders gather with board members in a series of ceremonial contexts— or, as a *Financial Times* article dubs it, "the faithful arrive for Buffett Ritual" (Guerrera 2007). Interestingly, in such a context, in contrast to agency theory's view that shareholders have authority over the board, it strikes us as perfectly sound to construe that it may be the board, including Warren Buffet, who has the authority and that shareholders act as if the board is their leader.

5. Contemporary Research that Supports the Confucian "We"-Mode

At this juncture, one might say that the Confucian "we"-mode and the transformative power of ritual sound great, but are not empirically realistic in business organizations. But it seems that the "we"-mode forms of deliberation and organizational behaviors that our Confucian approach would entail are consistent with findings in empirical literature. Thus, we hope to argue there is no reason to think our approach inviable.

Our Confucian account coheres well with the organizational citizenship behavior (OCB) literature (see Lai, Lam, and Lam 2013; Podsakoff et al. 2009). A chief focus of the Confucian perspective is valuing the success of the firm *qua* firm. The employee in our model would therefore sometimes aim for the organization's success, even when her behavior is discretionary and not recognized by a formal rewards system (Elstein and Tian 2017). Organizational citizenship behavior is often defined in these very terms (Dennis W. Organ 1988; e.g., Matta et al. 2015), though sometimes it is cognized in more expansive terms (Dennis W. Organ 1997; Takeuchi, Bolino, and Lin 2015; Bolino, Turnley, and Bloodgood 2002). Most OCB models seem to integrate at least one factor that measures willingness to recognize and obey authority (LePine, Erez, and Johnson 2002). Organ (1988, 1990) puts his in terms of 'conscientiousness.'[iv] Van Dyne, Graham, and Dienesch's (1994) OCB model, drawing on earlier work that integrated political philosophical concepts with management theory (Graham 1991), incorporates the factors of 'obedience' and 'loyalty.'[v]. Here, we offer an approach that sheds light on such concepts—we offer a theory of why and how employees might accept authority in these organizations.

Our Confucian approach to TPM also suggests a new subject of interest in organizational behavior literature on collectivism. Most pertinent to our theory in this line of research is 'psychological collectivism,' defined as an individual-difference (rather than cultural) variable (Jackson et al. 2006). Psychological collectivism "represents the degree to which individuals hold a general orientation toward group goals, a concern for the well-being of the group and its members, an acceptance of group norms, and a tendency toward cooperation in group contexts" (Dierdorff, Bell, and Belohlav 2011: 247). In other words, collectivism favors a subordination of personal interests in the interest of the collective (Wagner et

al. 2012; Triandis 1995). This collectivism is seen as closely connected to increased cooperation in groups (for a meta-analysis, see Marcus and Le 2013). Dierdorff, Bell, and Belohlav (2011) recently referred to the power of collectivism to facilitate cooperation in teams as "the power of 'we.'" Collectivistic orientations have been shown to be positively correlated with organizational citizenship behavior (P. M. Podsakoff et al. 2000; Moorman and Blakely 1995; van Dyne et al. 2000).

The research on collectivism in groups seems to have significant overlap with at least the empirical implications of the Confucian communitarian construct we advance. One theoretical issue, however, is that groups (such as teams) are typically seen as at a distinct organizational level from the firm-wide level (Klein, Dansereau, and Hall 1994). In Marcus and Le's (2013) meta-analysis on collectivism and cooperation, they adopt Kozlowski and Bell's (2003) definition of 'groups' for the purpose of examining extant findings on group-level cooperation, defining them as distinct from the "broader entity" (in our case, distinct from the firm);[vi] For instance, team production has been used to examine corporate board dynamics (Machold et al. 2011) as well as specify prescriptions regarding corporate board recruitment and function (Kaufman and Englander 2005; Ingley and Van Der Walt 2004). Some theorists have attempted to extend the study of collectivism to the firm-wide level (Robert and Wasti 2002), but they have treated collectivism as a group composition variable—in the case of Robert and Wasti (2002), as an attribute of organizational culture. Our "we-mode" approach offers a theoretical extension of the collectivism literature by positing a relationship between individual-level collectivistic orientations towards firms at-large and positive firm-level implications. This is because we are interested in how authority affects individuals' adherence to their own role obligations.

Our Confucian approach also develops the literature on normative organizational commitment. Decades ago, Yoash Wiener (1982) articulated what he called a "normative view" of organizational commitment, positioned in direct opposition to "instrumental-utilitarian" approaches to commitment, which proceeded on the premise that "work behavior may be determined not only by calculative-instrumental processes, but also by normative pressures…" (Wiener 1982: 426). Wiener focused on how normative considerations of what one "should" do may prompt individuals to make personal sacrifices for

organizational wellbeing. A similar notion of normative commitment constitutes one of the three components of Meyer and Allen's (1991) influential model of organizational commitment (see also Meyer and Parfyonova 2010).

Most conceptualizations of normative commitment share a focus on motivational factors of obligation as set apart from the motivational aspects of desire, and some extensions of the construct acknowledge a number of conceptually and empirically distinct normative pressures (Meyer and Parfyonova 2010). The Confucian perspective's stress on role obligations *qua* membership in the team fits nicely into this general framework. To reinforce organizational authority, the Confucian approach places a premium on defining and sustaining these obligations with ritual. It additionally allows employees to recognize legitimate authority by, among other things, identifying the virtuous.

Contemporary research in brain and cognitive science supports the ancient Confucian thesis people enter a "we"-mode, in which one perceives herself and others as role-bearing selves. Dunbar (2003) shows that the human brain has a specialized capacity for social bonding that includes the capacity to distinguish team activities that involve group goals and joint efforts from "I"-mode activities that do not involve such group goals. Perception and action research confirm that once a person perceives a team-framed situation, she immediately activates specialized cognitive faculties for team activities (Sebanz, Bekkering and Knoblich 2006). Other empirical evidence indicates that when individuals recognize that they are in a team activity, a specialized brain capacity actively triggers participants' cognitive faculties to understand and accept the normative belief that they have role-obligations and should fulfill them in a harmonious manner so that the team they belong to can effectively achieve shared group goals (Echterhoff, Higgins, and Levine 2009; Higgins and Pitmman 2008; Sebanz et al. 2006).

Evolutionary studies (Tomasello, Carpenter, Call, Behne, and Moll 2005) strongly support the viability of "we" intentionality (Gilbert 2000; Tuomela 2007) — namely, the distinctively human capacity for "we" intention and "we"-mode team production. In particular, Tomasello et al. write, "human beings, and only human beings, are biologically adapted for participating in collaborative activities that involve shared goals and socially coordinated action plans (joint intentions)" (2005: 676). This evolutionary thesis

is strikingly consistent with the Confucian belief that what makes us distinctively human is the capacity to create and nurture the "we"-mode. Tomasello et al. also show that joint/team production activities that involve "we" intentionality are typically structured by "shared symbolic artifacts such as linguistic symbols and social institutions" (2005: 675). In other words, the fact that so many business organizations already use various rituals for their special events and daily organizational lives may be a proxy by which we can infer that much of real business organizations are like sports teams in which team members' role-obligations are harmoniously coordinated by authorities.

Finally, Haidt (2012) and his colleagues (with Kluver and Frazier 2014) maintain that human beings are factually what Durkheim (1915) dubbed *Homo duplex* rather than *Homo economicus*. The individualist picture of the self-interested person is only part of the story about who we are. Humans have exceptional capabilities to reason and act as a group. Haidt (2012) suggests that there exists what he calls a "hive switch," by which humans can switch their "I"-mode self to a "we"-mode self and, most interestingly, that ritual is a powerful hive switch. He supports the hypothesis about the hive switch with various anthropologists' works on ritual and group. Notably, Haidt cites the historian William McNeil's (1995) book that surveys military and religious settings in which ritual plays a role of a hive switch. Consider McNeil's personal experience of military training in World War II as follows:

> Words are inadequate to describe the emotion aroused by the prolonged movement in unison that drilling involved. A sense of pervasive well-being is what I recall; more specifically, a strange sense of personal enlargement; a sort of swelling out, becoming bigger than life, thanks to participation in collective ritual (1995: 2).

Haidt (2012) also connects the "groupish" nature of human being to corporations and leadership. Notably, Haidt cites Kaiser, Hogan and Craig's (2008) work on leadership from an evolutionary perspective, which writes:

> Transactional leadership appeals to followers' self-interest, but transformational leadership changes the way followers see themselves—from isolated individuals to members of a larger group. Transformational leaders do this by modeling collective commitment (e.g., through self-sacrifice and the use of "we" rather than "I"), emphasizing the similarity of group members, and reinforcing collective goals, shared values, and common interests (2008: 104).

To use Kaiser et al.'s words, the Confucian perspective shows that authority in a firm is recognized and

strengthened (and, simultaneously, team production problems are mitigated) to the extent that higher-ranking individuals exercise transformational leadership.

We acknowledge that the research streams introduced in this section do not entail the full measure of viability of the Confucian "we"-mode team production model and its propositions about the source of authority. Nonetheless, we hope that we have shown that the Confucian thesis about the source of authority and the importance of "we"-mode team production merits serious further scholarly attention, including theoretical and empirical development.

6. Limitations

Let us briefly discuss the limitations of this article. The most obvious limitation concerns the nature of teams. Not all teams are morally equivalent. Hitler had a team and the Golden State Warriors have a team. Hitler's team was evil but the Warriors are not. If an important source of the effectiveness of authority on a team is its moral legitimacy (Scherer and Palazzo, 2007; Suchman 1995), then it is important to understand the significance of the difference between those teams that are evil and those teams that are not. Confucians recognize this difference and maintain that legitimate authority inheres only in the virtuous team. Nonetheless, they recognize that even an evil team can function effectively. Indeed, even Hitler's most evil organizations functioned effectively for some time. But the Confucian model does not purport to explain how all firms work. Instead it purports to explain how good firms work. In this respect, the Confucian model is no different from Alchian and Demsetz's (1972) team production model. Even Alchian and Demsetz must admit that organizations can function outside the market realm when, for example, they are run by brute force. Alchaian and Demsetz's team production model suggests, as does the Confucian model, that there are better ways to run an organization that through brute force. Still, this suggests that for the Confucian, the source of authority in the organization, the existence of a proper team, relies on much more than the existence of ritual. For legitimate authority to exist, an organization must be morally decent, properly allocating burdens and benefits within the organization, upholding responsibilities to the community. Spelling out the nature of a good firm is necessary for even the aspect of the Confucian theory of the firm that purports to merely explain authority

in the firm—but that is more than can be done here.

Relatedly, when Zingales (2000) summarized the major questions that a theory of the firm should answer, the first three questions ask about the source of the authority, whereas the fourth asks a bit different, although related, question. Zingales writes, "The fourth and final question that a theory of the firm should address is how the surplus generated by the firm is allocated among its members" (1625). The Confucian perspective developed in this article does not fully answer this question. To properly answer Zingales' fourth question, we need to develop a Confucian theory of value creation that addresses what a firm should create and for whom. Nonetheless, let us briefly explore what we can say based on the Confucian perspective developed in this paper. In a hierarchy, the board and derivatively higher-ranking individuals do and should well understand the content of the special kind of role-obligation—namely, authority—which is to serve the "rites-bearers" (Ames 1988; Rosemont 1991) or team production members to achieve group goals that necessarily include cultivating team members' best "we"-mode selves (Chan 2014; Ivanhoe 2000; Tu 1978/1998). From the Confucian team production perspective, the legitimacy of the authority, thus, is deeply related to the authority's commitment and capability to create and nurture team production environments in which all involved team members' best selves are activated, nurtured, thriving, and flourishing (Kennedy, Kim, and Strudler 2016).

What, then, is the Confucian definition of the best self or human flourishing? The Confucian concept of self differs from the neo-classical economics' self (Ivanhoe 2000; Tu 1978/1998). The Confucian self is from the beginning in "we"-mode. Thus, self-cultivation is always understood relationally and pro-socially. What does Confucianism mean by the "we"-mode best self? Confucianism says that there is no one unified, pre-ordered version of the best self. For Confucians, the good is contextually intelligent and particularistically valued (Angle 2009).[vii] Indeed, various important Confucian scholars have not only argued against the conventions of their own society, but have also offered strikingly different visions of how exactly one realizes one's best self. However, all of them agree that the very process of seeking the best self through the "we"-mode joint activity transforms us and our social world (Puett and Gross-Loh 2016).

7. CONCLUSION: TOWARD A "WE"-MODE TEAM PRODUCTION THEORY OF THE FIRM

As Zingales (1998) points out, governance, by definition, means nothing but the appropriate exercise of authority, while theory of the firm is a study of the source of the authority in the first place. Hence, theories of the firm that do not pay due attention to authority as a key concept for understanding the nature of the firm fail to fulfill their own purpose. The primary thesis that we have submitted is that a firm is like a sports team. The source of authority in a firm—thereby, the foundation of corporate governance— is the fact that a firm is nexus of role-obligations and authority is a special kind of role-obligation created, nurtured, and legitimatized by virtue of its membership in the "we"-mode production team itself. More specifically, the Confucian approach identifies the purpose of authority—thus, the purpose of a firm— as team production; further, the Confucian approach identifies authority as a special kind of a role-obligation created and nurtured through notably, but not limited to, rituals, rites, or ceremonies, in which individuals become "rites-bearers" (Ames 1988) who activate and nurture a teamwork-based, role-bearing self or the "we"-mode self. In an "I"-oriented nominally joint production team, guileful and opportunistic contractors, who activate and use the "I"-mode self (Alchian and Demsetz 1972; Jensen and Meckling 1976), do not create enough room for respect for authority. In such an "I"-framed Hobbesian team production, each contracting rights-bearer is an authority on herself, and if everyone is the authority, no one is the authority—a fundamental premise of the invisible-hand-and-nothing-else approach—so there is not enough room for governance.

From the Confucian perspective, authority in a firm—thereby, governance— is strengthened (so the team production problem may be solved), all other things equal, to the extent that the "we"-mode shared reality, in which team production members realize that they as team members have role-obligations to create team-specific investments, is recognized and strengthened. In contrast to the existing theories of the firm, the Confucian perspective provides that the language of contract-, market-, property right-, or more generally "rights-talk" (Glendon 1991) may undermine the foundation in which authority, corporate governance, and team-specific investments can emerge, returning the team production to be part of the market. If team members understand the organizational life through existing theories of the firm,

which rely primarily on the language of contract or property rights, the instrumentalist understanding may undermine the foundation in which good governance can emerge. By developing the Confucian view of team production, this article maintains that we need to bring back authority to the theory of the firm, which also shows that we need to move beyond the "I"-mode nominal team production toward the "we"-mode genuine team production. The Confucian perspective offers that a firm can solve the team production problem by being a genuine team that takes the "we"-mode mind-set. By doing so, team members can act upon team goals with managerial directives of the authority and avoid shirking and wasteful rent-seeking behaviors.

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[i] A Hobbesian subject might calculate her self-interest either in response to the prospect presented by a single choice she faces, or in response to the prospect of a sequence of choices she faces. As Gauthier (1987) shows, the latter form of calculation can lead to more stable and higher utility outcomes.

[ii] Interestingly, although Blair and Stout (1999) adopt Hobbes's instrumentalist approach to authority in one of their earliest and perhaps most influential papers, we shall see that Blair and Stout (2001) later soften their approach to bring it much closer to the Confucian approach that we endorse.

[iii] Thomas Donaldson (2012) has formally demonstrated that theories of corporate governance must be thick concepts in this sense, since one cannot provide "advice" or offer prescriptions from purely descriptive premises. He correctly points out that "[a]ny true theory of governance must allow for 'good' versus 'bad' corporate governance...[and] [n]o purely positive theory can do this" (Donaldson 2012: 266). His analysis is built explicitly upon Coase's likeminded proclamation, invoking Frank H. Knight, that "[p]roblems of welfare economics must ultimately dissolve into a study of aesthetics and morals" (Coase 1960: 43).

[iv] In Podsakoff et al.'s (2009: 123) words, Organ's "*conscientiousness* (often called *compliance*) is behavior indicating that employees accept and adhere to the rules, regulations, and procedures of the organization."

[v] Obedience and loyalty respectively account for the degree to which an individual "demonstrates respect for a rational structure of rules and regulations…and displays allegiance to the organization as a whole…" (Van Dyne, Graham, and Dienesch 1994: p. 775)

[vi] Behavioral findings on groups defined as such in the literature, whether on team-level or other group levels, are therefore, without further theoretical and empirical extension, not readily translatable to the firm-level.

[vii] Confucianism with its emphasis on the notion of the good has close connections to American pragmatism. Several authors reinterpreted Confucianism through the lens of pragmatism. David Hall, who wrote influential books on Confucianism with Roger T. Ames (e.g., 1995, 2015), had begun his academic career as an American pragmatism researcher (e.g., 1973, 1993). Tan (2003) also used John Dewey's pragmatism to reinterpret Confucianism to develop a notion of Confucian democracy. In this respect, Confucianism has shared interest with stakeholder theory, whose philosophical root is pragmatism (Freeman, Wicks, and Parmar, 2004). So, it is a promising research topic to explore the two theories relationships and doing so is beyond the capacity of this paper.