

THE CORPORATION

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THE CORPORATION: RETHINKING THE ICONIC FORM OF BUSINESS ORGANIZATION

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FOREWORD: RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS

Research in the Sociology of Organizations (RSO) publishes cutting edge empirical research and theoretical papers that seek to enhance our understanding of organizations and organizing as pervasive and fundamental aspects of society and economy. We seek provocative papers that push the frontiers of current conversations, that help to revive old ones, or that incubate and develop new perspectives. Given its successes in this regard, RSO has become an impactful and indispensable fount of knowledge for scholars interested in organizational phenomena and theories. RSO is indexed and ranks highly in Scopus/SCImago as well as in the Academic Journal Guide published by the Chartered Association of Business schools.

As one of the most vibrant areas in the social sciences, the sociology of organizations engages a plurality of empirical and theoretical approaches to enhance our understanding of the varied imperatives and challenges that these organizations and their organizers face. Of course, there is a diversity of formal and informal organizations – from for-profit entities to non-profits, state and public agencies, social enterprises, communal forms of organizing, non-governmental associations, trade associations, publicly traded, family owned and managed, private firms – the list goes on! Organizations, moreover, can vary dramatically in size from small entrepreneurial ventures to large multinational conglomerates to international governing bodies such as the United Nations.

Empirical topics addressed by *Research in the Sociology of Organizations* include: the formation, survival, and growth of organizations; collaboration and competition between organizations; the accumulation and management of resources and legitimacy; and how organizations or organizing efforts cope with a multitude of internal and external challenges and pressures. Particular interest is growing in the complexities of contemporary organizations as they cope with changing social expectations and as they seek to address societal problems related to corporate social responsibility, inequality, corruption and wrongdoing, and the challenge of new technologies. As a result, levels of analysis reach from the individual, to the organization, industry, community and field, and even the nation-state or world society. Much research is multi-level and embraces both qualitative and quantitative forms of data.

Diverse theory is employed or constructed to enhance our understanding of these topics. While anchored in the discipline of sociology and the field of management, *Research in the Sociology of Organizations* also welcomes theoretical engagement that draws on other disciplinary conversations – such as those in political science or economics, as well as work from diverse philosophical traditions. RSO scholarship has helped push forward a plethora theoretical

conversations on institutions and institutional change, networks, practice, culture, power, inequality, social movements, categories, routines, organization design and change, configurational dynamics and many other topics.

Each volume of *Research in the Sociology of Organizations* tends to be thematically focused on a particular empirical phenomenon (e.g., creative industries, multinational corporations, entrepreneurship) or theoretical conversation (e.g., institutional logics, actors and agency, microfoundations). The series publishes papers by junior as well as leading international scholars, and embraces diversity on all dimensions. If you are scholar interested in organizations or organizing, I hope you find *Research in the Sociology of Organizations* to be an invaluable resource as you develop your work.

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RETHINKING THE CORPORATION: INTRODUCTION

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Jeroen Veldman¹

ABSTRACT

For more than a century, the corporation has shaped our thinking of organizations. This deeply institutionalized form is still regarded as both the iconic business organization and the core structural unit of our economic order. Today, however, it stands at a crossroads. Economic, social, and environmental failures of the recent past as well as misconduct and scandals are widely linked to inadequacies in this corporate form and its governance. The aim of this volume is to spark a debate within the field. In this introduction, we provide an outline of the current crisis and an overview of the interdisciplinary set of articles presented in this volume. We conclude with a view ahead and a plea for the acknowledgement of “alternatives.”

Keywords: Crisis of the corporation; future of the corporation; sociology of organizations; business in society; concepts of the corporation; corporate purpose

POINT OF DEPARTURE: THE CORPORATION IN CRISIS

For more than a century, the corporation has guided our thinking about organizations. Organization theory itself makes such frequent explicit or implicit reference to the corporation that it has been described as “the science of General Motors” (Davis, 2009, p. 41). Moreover, the corporation is not merely the dominant institutional form of business organization but also represents the core structural unit

of our economic order, which has been termed “corporate capitalism” (Perrow, 2002). And finally, scholars in the field of organization and management studies have highlighted the preeminent role of the corporation, not just in our economic system but also in society at large. Berle and Means (1932), for example, held that the corporation was “not only one form of social organization but ... the dominant institution of the modern world ... possibly superseding [the state] as the dominant form of social organization” (p. 356). In a similar vein, Drucker (1949) saw the large enterprise, as the “true symbol of our order,” displaying the structure “which actually underlies all our society” (p. 29).

Today, however, there is renewed and heated debate about the role that the corporation has, or should have, in society. Critics both in practice and academia argue that the US type of business corporation, usually understood as dedicated to generating profits for its shareholders (Fligstein, 1993; Useem, 1996), encourages misconduct and is directly responsible for a litany of current economic, social, and environmental woes, including climate change and social inequality. Davis (2021) certainly gets to the heart of such criticism when he writes that “put bluntly: nearly every major societal pathology in the West today – certainly in the USA – is caused or exacerbated by profit-oriented corporations” (p. 904). Most critics see the corporation as having arrived at a crossroads: to survive, it must change.

It is only in the last few years that business leaders and politicians have woken up to this challenge. In the widely acknowledged “Statement on the purpose of a corporation”² issued by the Business Roundtable in 2019, 181 CEOs of US corporate giants proclaimed a paradigmatic shift away from the doctrine of “shareholder primacy.” In a new approach, they committed themselves to delivering value to all of their stakeholders “for the future success of our companies, our communities, and our country” (see also Harrison, Phillips, & Freeman, 2020). In the political arena, the French government has recently developed an “Action plan for business growth and transformation”³ explicitly aimed at rethinking the social role of business corporations. As part of this plan, the country’s Civil and Commercial Codes were modified in 2019 to strengthen management’s consideration of the social and environmental impact of their corporate actions (Segrestin, Hatchuel, & Levillain, 2018). On the level of European policymaking, the European Commission has initiated a new set of regulations intended to shift corporate law, reporting, and finance to more closely reflect the goals of the Green Deal, most recently through the “Sustainable Corporate Governance Initiative”⁴ of 2020. The particular aim of this initiative is to “better align the interests of companies, their shareholders, managers, stakeholders and society”. While these measures all indicate a willingness to change the corporation, it remains to be seen if they will prove successful and sufficient.

FOCUS: THE ROLE OF THE CORPORATION IN SOCIETY

Various policy and legal initiatives in this regard are mirrored by a growing academic interest in the organizational form of the corporation. Here the crisis of the corporation as well as its future is being investigated by scholars from various

disciplines. Research on the corporation from an economic or legal perspective has brought related issues of corporate architecture, governance, and management to the fore (see [Baars & Spicer, 2017](#)). The sociology of organizations is, quasi by definition, more interested in broad cultural and political questions ([Dobbin, 1994](#); [Fligstein & Choo, 2005](#); [Mizruchi, 2013](#); [Roe, 2003](#); [Roy, 1997](#)). Its focus is on the embeddedness of organizations in society at large. It is thus unsurprising that a great deal of the current academic criticism of the corporation comes from this scholarly tradition (e.g., [Adler, 2020](#); [Davis, 2013, 2016, 2021](#); [Patriotta, 2020](#)). Furthermore, in the wake of the crisis of the corporation, many scholars are seeking alternative forms of business organizations such as the “benefit corporation,” with the *B Lab* movement perhaps one of the most significant drivers of debate, certainly in the United States ([Marquis, 2020](#)).

The idea for this volume was born in the aftermath of a Professional Development Workshop at the Academy of Management’s 2019 General Meeting in Boston organized by editors and contributors of this volume. In this workshop, leading organizational scholars widely agreed on the established criticism of the corporation and called for further debate on its societal role. Yet there was remarkable diversity in the approaches to this issue, in particular regarding the “shareholder vs stakeholder” dilemma, which appears at the heart of most debates on the corporation, in general, and corporate social responsibility, in particular ([Mayer, 2021](#)). During the course of the workshop, it became apparent that a broader debate on the future role of the corporation in society was required to clarify the implications for corporate purpose and governance as well as the likely impact of alternative forms of business organization.

The ambition of this volume is to establish an inter-interdisciplinary dialogue on the role of the corporation in society as well as on its nature. Our aim is not just to bring together extant themes in organizational sociology – such as institutional logics ([Thornton, Ocasio, & Lounsbury, 2012](#)), institutional change ([Micelotta, Lounsbury, & Greenwood, 2017](#)), actorhood ([Hwang & Colyvas, 2020](#)), varieties of capitalism ([Hall & Soskice, 2001](#)), organizational diversity in alternatives to the corporation ([Schneiberg, 2021](#)), and B Corps ([Gehman, Grimes, & Cao, 2019](#)) – but also to draw inspiration from other disciplines. This includes economic ([Lazonick & O’Sullivan, 2000](#); [Mayer, 2021](#)), legal ([Ireland, 2005](#); [Robé, 2011](#)), and combined ([Blair & Stout, 1999](#)) perspectives on the corporation and its governance as well as historical approaches ([Davoudi, McKenna, & Olegario, 2018](#)). By inviting scholars from various backgrounds to apply their own unique disciplinary lenses on business organizations – in particular sociological, economic, historical, and legal perspectives – we are striving to encompass a wide diversity of views on the corporation, all of which are required to reach valid conclusions on its fate.

The articles in this volume contribute both empirically and conceptually to the debate on the current crisis of the corporation and its potential future. They address the corporation’s entanglement with capitalism, examine a spectrum of constitutive features and purposes of the corporate form, offer historical perspectives on its emergence, recollect abandoned features that “litter” its developmental pathway ([Schneiberg, 2007](#), p. 47), and reflect on its future evolution by engaging with the corporation as a deeply institutionalized organizational form.

OVERVIEW OF ARTICLES

Ideas and Ideologies: Economic and Legal Framings of the Corporation

The volume opens with an article by *Loizos Heracleous* and *Luh Luh Lan*, who position their contribution in the scholarly paradigm that has predominantly guided the field of corporate governance, namely new institutional economics, or more precisely, agency theory. The authors begin with [Berle and Means \(1932\)](#) seminal observation that ownership and control are separated in the large modern business corporation. From this perspective, concentrated ownership provides an effective and efficient way to mitigate the gap between shareholders and management. Yet – the article argues – this is a double-edged sword, as the controlling shareholders may use their power at the expense of minority shareholders and society at large. Today, blockholding is the standard model of corporate share ownership around the world. Linking economic ideas on the private (i.e., shareholder) benefit of control with an organization theory perspective on socio-emotional wealth, the article develops two distinct approaches to extending the positive effects of concentrated ownership to groups beyond the controlling shareholder: first, an effective law to adequately protect minority shareholders; and second, the socio-emotional involvement of controlling shareholders, for instance in corporate management. In their conclusion, the authors return to [Berle and Means \(1932\)](#), specifically their three future scenarios for the business corporation. The first two rather dystopian scenarios are dominated by the interests of passive rentier shareholders or corporate managers. The (title-giving) “third possibility” aims to include broader interests of other stakeholders and society at large. Heracleous and Lan argue that this can be engendered by the positive effects of concentrated share ownership in the hands of socio-emotionally involved and active blockholders. This would help foster “a more engaged, longer-term form of corporate control that acknowledges a broader societal purpose of the corporation beyond shareholder enrichment” ([Heracleous & Lan, 2022](#), p. 25).

The article by *Olivier Butzbach* maintains the focus on shareholders to ask why shareholder primacy still persists after decades of radical criticism and opposition. Addressing key economic and legal arguments, the conceptual article draws on a wide range of sources to debunk shareholder primacy as an “ideology,” which draws its resilience and legitimization from a series of postulated truths such as that shareholders are (or should be) “owners,” “principals,” or “residual claimants” of a corporation. In addition, the article shows how imperatives of economic rationality, primarily the call to efficiency, have contributed to the persistence of shareholder primacy. The future of the corporation, Butzbach argues, “cannot be found by looking out for a *general* basis for shareholders’ rights” (p. 49, emphasis in original); rather, the nature of shareholders’ claims over the corporation is radically contingent. In this respect, the author sees current systems of corporate governance as clearly favoring the financial investor, particularly through their inconsistent separation of corporate “control” and “ownership” (strict separation when it comes to limited liability, but weak separation in terms of the right of control). In concluding, the article prepares the ground for subsequent contributions in the volume. With regard to the function

of managers, Butzbach argues that they should not serve shareholders but the corporation as such in order to keep the business running. What interests this may imply, however, is not a question of economics or corporate law “but of collective choice” (p. 50).

Anna Grandori's article continues along these lines. Integrating an economic perspective of the firm with arguments from organization and management theory, political science, constitutional law, and political economy, she asserts that the corporation is essentially a form of “constitutional” contract, establishing a separate polity (“*societas*”). Taking the “thirdness” of this polity seriously, the article argues that the corporation should be designed as a democratic “republic of rightholders.” Not only is there discussion of how the representation of the various legitimate interests in decision-making on behalf of the corporation can be organized but also the consequences for the quality of decisions, which implies the representation of relevant knowledge. Grandori centrally argues that the status of share- and therefore “rightholding” in the corporation (not unlike member- or citizenship) should be granted based on investment of critical resources that cannot be withdrawn from the corporation (such as financial capital but also social capital or knowledge) as well as the acceptance of risk. Underpinned by the constitutional principle of the separation of powers, the governance of the “third” entity of the *societas* is structured into multiple “chambers” of rightholders. In addition, and drawing on a further constitutional principle, i.e., deliberative decision-making, decisions by these chambers (including the appointment of key decision-makers) are taken by vote but prepared by committees. The composition of the latter includes holders of diverse forms of relevant expertise; while a high degree of diversity may result in more costly decision-making, Grandori argues that the improved quality of decisions makes the extra effort worthwhile. Summing up, the core contribution of this article “may be seen as infusing the constitutional principles of the ‘thirdness’ of institutions and ‘knowledgeability’ of decision-makers in the classic analyses of the classic form of business organization” (p. 73).

Purpose and Politics: A Historical View

Opening a series of three articles from a more sociological and institutional perspective, the contribution by *Patrizio Monfardini, Paolo Quattrone, and Pasquale Ruggiero* bridges the macro and the micro levels by introducing the empirical case of the *Istituto per La Ricostruzione* (IRI), a public holding company which up to the 1970s controlled large parts of the post-war Italian economy. In their historical study, the authors show how IRI was originally established after the Second World War to distribute funds provided by the US government via the Marshall Plan. While the intention was clearly to export the mindset of US style corporate capitalism to post-war Italy and inoculate the country against communist ideology, the IRI represented an emerging institutional infrastructure that positioned the country somewhere “in the middle” of the ideological spectrum. Here the state authorities constituted “a central actor in mediating these opposing forces, with the firm becoming the battlefield where this mediation and positioning occurred” (p. 82). The resulting institutional complexities and opportunities were

approached in a rather pragmatic fashion. While the IRI was *de facto* a public entity, the corporations under its control were managed on market-based principles, while particular (“inappropriate”) charges calculated the extra-burden that resulted from the IRI’s particular social and political role. Albeit highly specific to Italy, the case of the IRI provides inspiration for pragmatic approaches and offers useful lessons for post-crisis recovery plans.

The contribution by *Stephan Leixnering, Renate E. Meyer, and Peter Doralt* takes a historical institutional perspective on the emergence of the *Aktiengesellschaft* (AG), the local version of the corporation in Germany and Austria. The authors view this corporate form, which arose around 1800, as an institutionalized response to a particular collective concern, with the link between form and collective concern representing the “purpose” of the institution. In their historical analysis, several drifts in purpose are identified – a distinct form of institutional change which, as they argue, conventional views on the persistence of organizational features of the AG would have erroneously diagnosed as a period of considerable stability. The form itself quickly became taken-for-granted as a legal “person” acting as a legitimate agent on behalf of different “others” such as the state, shareholders, or employees, and, in the final iteration, in its own interest. The authors thus construe the AG as “not only an actor within a political arena but also an actor constituting a political arena in and of itself” (p. 115). While the corporation’s present “crisis of purpose” may be the result of conflicts between the various constituents of the AG, the authors conclude that

any notion of “resolving” the conflict about corporate purpose is the wrong framing ... Instead, the way forward is to continuously seek reconciliation between diverging interests on organizational form, i.e., the corporation, thereby acknowledging their legitimacy. (p. 116)

The contribution by *Heather A. Haveman and Nataliya Nedzhvetskaya* focuses on the historical evolution of different forms of non-profit business organizations in Britain and Germany. These developed in reaction to the obvious failings of the proliferating business corporation between the end of the eighteenth century and the years just before the outbreak of the Second World War. The article builds on an institutional approach, holding that particular organizational forms reflect diverse macro-level logics, i.e., systems of cultural beliefs and normative expectations. Accordingly, for-profit business organizations are generally described as embedded in a market logic while non-profits reflect a community logic. In their analysis of the emergence and development of co-operatives, mutual aid-societies, and credit co-operatives, [Haveman and Nedzhvetskaya \(2022\)](#) show how for-profit organizations in Britain and Germany incorporated the ideals of community, enterprise, and self-help to different degrees, corresponding to different logics of capitalism (liberal vs welfare). To quote: “The relative success of each form of non-profit organization was due to the congruence between their logics and the prevailing logics of capitalism” (p. 136) as embodied in business law, employment law, and social welfare law. In their analysis, the authors find that in the United Kingdom, the ideals of enterprise and self-help resonated with the market logic and accounted for a de-liberalization of capitalism toward social welfare. In Germany, in contrast, the growing strength of non-profit organizations

contributed to an increasing acceptance of the community ideal as opposed to the market. Therefore, the study concludes that “when and where non-profit business organizations were highly visible and legitimate,” such as in Britain, “they could mobilize to be incorporated into the developing state-welfare system ... But when and where [they] were less numerous and viewed with suspicion,” such as in Germany, “the state could obviate them by taking over their functions” (p. 137).

In their article, *Suzanne J. Konzelmann, Victoria Chick, and Marc Fovargue-Davies*, continue the historical approaches of the previous articles by offering a particular perspective on the English-speaking world, namely the United States and the United Kingdom. They focus on the period from the 1920s to the 1970s, describing this as the time between the first appearance of *laissez-faire* capitalism and its later return. One of the article’s key points is that our modern debate on corporate purpose greatly resembles the discussions in the United States and England at the beginning of that period, in which Adolph Berle and John Maynard Keynes were the key figures. The article reveals many parallels with developments in the German-speaking world (as illustrated in the previous articles), as the focus of debate was on the societal role of large corporations. The authors mention the historical example of the *BBC*, whose transformation from a “company” into a “corporation” meant that it was “expected to engage in some form of public service” (p. 152). Both Berle and Keynes saw corporations as “stable institutions of capitalism” (p. 159), which needed to be protected from opportunistic managers. Given the post-war balance between the state, business, and organized labor as well as

the nature of shareholding during the first half of the twentieth century ... they could not have foreseen that the powers of shareholders would become a threat to the idea that companies should serve a public purpose. (p. 159)

The article reminds us that modern debates on corporate purpose may learn from historical arguments about the social obligations of large business firms – arguments which were so profoundly put by Berle and Keynes.

Competing Concepts: Diverging Views of the Corporation

The volume continues with an article by *Jeroen Veldman* and *Hugh Willmott* focusing on the “social ontology” of the corporation, i.e., “the (discursive) processes that articulate the significance of (competing) conceptions of the corporation as an organization” (p. 166). The authors explore how various conceptions relate to questions about the organizational status of the corporation (“What is the corporation?”) as well as its organizational architecture (“How is it constituted?”) and capacities (“What can it do?”). In particular, they investigate the social ontology of the corporation as stipulated by law, which reifies the corporation as a “separate legal entity” (p. 167). The article develops a threefold research agenda that aims to: (1) bridge socio-ontological assumptions in company law and organization theory; (2) suggest how these assumptions can be empirically studied from the perspective of organization and management studies; and (3) pinpoint the socio-economic implications, including how corporations

can address major societal challenges such as inequality and sustainability. The authors conclude that

awareness of historically, comparatively, and disciplinary divergent and competing articulations of social ontology, with their significant effects on the interpretation of organizational status, architecture and capacities and attendant socio-economic consequences, is critical for the development of [management and organization studies]. (p. 181)

Continuing this teasing apart of different organizational concepts of the corporation, the article by *Blanche Segrestin, Armand Hatchuel, and Kevin Levillain* proposes making a distinction between the “corporation” and the “enterprise” when it comes to questions of purpose. In particular, theories grounded in economics, the authors argue, have depicted the firm as a financing vehicle for business endeavors, with an emphasis on investments by and risk sharing among shareholders. In contrast, a more management-oriented view reveals the enterprise as an organizational device devoted to the realization of principles such as entrepreneurship, progress, and innovation, which are not only beneficial to the enterprise and its constituents but also to society at large. The article adopts a historical perspective on the emergence of corporate and labor law, illustrating the differences by focusing on the key role of management. The authors conceptualize the enterprise as a collective concern whose purpose transcends shareholder interests:

If we acknowledge that the [purpose] is not founded in the ownership of assets but in the capacity to coordinate activities for a collective progress, then the current governance framework needs to be revised. (p. 202)

The recommendation and suggested way forward is to align corporate purpose with the purpose of the enterprise – a step that has already been taken by means of alternative, purpose-driven corporate forms such as the *société à mission* in France.

Learning from Alternative Forms of Business Organization

In the final article of the volume, *Joost Luyckx, Anselm Schneider, and Arno Kourula* continue the discussion of alternative forms of business organizations. As their starting point, they consider the current critique of corporate purpose as well as of ownership and participation in corporate governance. In detail, they summarize criticisms of the prevalent emphasis on shareholder interests as well as the negative externalities of corporations that follow from this, particularly in corporations with centralized share ownership. In addition, they point to the corporation’s non-democratic nature, which prevents non-shareholding stakeholders from participating in corporate decision-making. To address these issues, the article suggests that we learn from current debates on alternative forms of business organization, whose typical features have usually evolved as remedies for the flaws of the corporate form. In particular, the authors contrast the characteristics of co-operatives, state-owned enterprises, democratically organized firms, social enterprises, stakeholder firms, and sharing economy platforms. In the light of these organizational alternatives, they conclude that “to reform the profit-maximizing corporation, it is necessary to reform simultaneously its purpose and