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C O M M E N T A R Y

ALTERNATIVE FORMS OF ECONOMIC ORGANIZATION: BE CAREFUL WHAT YOU WISH FOR

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Management researchers have been accused of avoiding the "big questions." For example, Starkey (2015) criticized management journals for paying little attention to the global recession and financial crisis of 2007–2008. In recent years, though, management researchers have begun addressing one of the big questions: Is free enterprise always the solution? Indeed, "Capitalism in Question" was the theme of the 2013 Academy of Management conference in Orlando. We add to this debate by publishing a symposium from this conference, organized by Professor Paul Adler of the University of Southern California, on "Alternative Economic Futures: A Research Agenda for Progressive Management Scholarship."

This symposium was inspired, at least in part, by the global financial crisis of 2007–2008. While its intention is to start a conversation in management on alternatives to capitalism, this conversation will be useful to guide future research only when one comprehends (and, we hope, addresses) the etiologies of the arguments provided in this essay (c.f. Agarwal, Barney, Foss, & Klein, 2009). We note that the typical progressive narrative regarding policy choices in the aftermath of financial crises focuses on *market failure* as the main cause. Thus, the proposed solutions typically involve some form of intervention to correct "market excesses." We acknowledge that market adjustments are seldom smooth, so that when supply responds to discontinuities in demand, the disruptions to organizational integrity and employment can be significant. However, policy interventions to mitigate the consequences of market adjustments are *themselves* a form of disruption that can extend and even deepen the pain for stakeholders. To this end, we seldom see mention of the role of *government failure* (Winston, 2006; Coase, 1964) as a cause, or at least abettor, of crises. For example, the Community Reinvestment Act of 1977 created intense pressure on banks to support the "ownership economy" by issuing loans to consumers who were increasingly less creditworthy (Agarwal, Benmelech, Bergman, & Seru, 2012). Although it would be three decades until the severe recession of 2007 and the financial crisis of 2008, a testament more to the perceived opportunities in U.S. investments, the outcome was eminently predictable.

The use of economic turmoil as a reason for advocating progressive policies has a long, storied history (Higgs, 1987). In the aftermath of the Great Depression, President Franklin Delano Roosevelt, relying on his brain trust of Columbia University professors—Raymond Moley, Rexford Tugwell, and Adolph A. Berle, Jr. (famous for his academic research with Gardiner Means on corporate governance)—developed a series of interventionist policies known as the New Deal. Shortly after World War II, the United Kingdom and other European nations, also relying on the assistance of key academics, adopted a series of progressive policies that gave rise to a large, unwieldy welfare state that many European Union nations have been struggling to sustain (Leuchtenburg, 1995). Hence, the articles in this symposium are not just a reaction to the cataclysmic events of 2007 and 2008, but also a reflection of concerns regarding income/wealth inequality and perceived "unfairness" in the workplace and society that go back at least 50 years.

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CAPITALISM AND ITS CRITICS

An assault on inequality in the workplace and society often leads scholars to criticize capitalism and the organizational forms that arise in a free market. Yet calls to reconsider free market economics and capitalism often conflate several key issues. First, they confuse descriptive theory (how things actually work) and normative theory (how things ought to work, based on some system of values or beliefs). Normative theories are values-based. As such, while normative theories can be subject to arguments about "what's best" and "in whose interests," descriptive theories are, by definition, fact-based. For example, the notion that specialization increases productivity stems from the fact that humans are capable of learning, and learning increases mental and physical dexterity in the performance of tasks (Smith, 1776). Therefore, the only arguments concerning descriptive theory relate to the accuracy of the empirical data. While such arguments are not trivial, they are not fundamentally about what happens. Thus, we believe that it is not possible to compare the desirable against the possible when there is no understanding of, or agreement on, what is actually going on.

Second, the institutions enforcing the laws governing free exchange (and the exercise of free choice in production and consumption) are not the same as the institutions constraining individual choices that create harm for others (Bradley & Klein, in press). In a similar vein, the mechanisms that lead to the creation of wealth (market exchange, subject to the maximization of individual utilities) are different from, and should not be confused with, the mechanisms to distribute it (taxation and philanthropy).

Wealth creation is based on risk taking, for the simple reason that any financial investment undertaken to organize the means of production has a non-zero probability of loss. Hence, any theory of wealth creation and social well-being in a society has to first include an explanation for how resources are deployed to their most productive uses and how risk taking is compensated, since the latter is a necessary condition for the former. This means that a requirement for an entrepreneur[1] to take action is an expectation that he or she will be compensated for the costs of capital, plus an indemnification against the risk of loss of unrecoverable investments in individual (or collective) effort, time, and social and political capital (Knight, 1921).

Therefore, in discussing alternatives to capitalism, it behooves scholars to first agree on what happens (i.e., descriptive theory). These are the narratives of how production and consumption work in an economy. Absent central planning, producer and consumer resource allocation decisions are driven by information on the value of the alternative use of such resources (Hayek, 1945). Such information is revealed in the choices that individuals and organizations make when they delay consumption in favor of investment (or risk taking). In effect, the relative values (or prices) of goods and services, which are determined by supply and demand, drive investment and consumption decisions when put against the opportunity set facing the decision maker. Hence, any proposal for a post-capitalist economy that alters the information embedded in prices (outside that determined by supply and demand) will result in a less than optimal (in the sense of an investment or consumption decision having a better alternative) allocation of resources.

We see this, for example, by the setting of wage floors or price caps on commodities such as staples and medicines. The net impact of such distortions is over/under-investment (that is, investments that will not yield the best return for risk taking) and, therefore, over/under-consumption. In short, distortions in pricing information lead to misallocation of resources and suboptimal economic and social welfare. Of course, there are exceptions, such as when the supplier of a good is a monopolist, but even here the rents attract innovators and competition, given that true natural monopolies are rare. One need only compare the outcomes of the federally mandated break-up of the Bell Company into the Regional Bell Operating Companies, aka Baby Bells, which were still imbued with considerable monopoly power (Tunstall, 1985), with the market taming of the Microsoft Corporation into a mobile computing has-been (Keizer, 2016) to see the relative effects of the marketplace.

Notwithstanding this basic calculus, in a market-driven society knowledge is neither evenly dispersed throughout an economy nor always readily available to those best able to exploit it. In fact, we know that knowledge tends to "clump" and that the most valuable knowledge, in the sense of what can be commercially profitable, is that which is held in

[1] We define an entrepreneur as any individual who has to invest personal resources (effort, financial and intellectual capital, social capital, etc.) into a perceived opportunity without guarantee of a fixed return on that investment. This term can be used to refer to organizations or collectives of individuals who engage in risk taking beyond their normal routines to seek out new opportunities for wealth creation.

private hands, closely guarded, and it is often subjective in value. In fact, entire fields of study in public choice theory, property rights economics, and law and economics have arisen to contend with the fact that the adjustments anticipated by theory are not smooth, and can create dislocations in the labor force and mismatches between production and consumption. Nevertheless, we believe that the place to start a discussion of alternatives to capitalism should be at identifying and solving the impediments to the most efficient distribution and exploitation of knowledge, rather than the substitutions of such mechanisms with government mandates.[2]

To the extent that knowledge is a fundamental component of the means of production, those looking for alternatives to capitalism argue about the separation or integration of the ownership of and control over the means of production. They are not the same, as Smith (1776), Hayek (1945), Friedman (1962), Jensen (2000), and others have pointed out. According to Jensen, the ownership and control of capital are the ways by which risk bearers and risk takers specialize in what they do best. Sometimes, the best risk takers are also the best risk bearers because they have private knowledge that allows them to assume risks at costs much lower than the next most efficient risk bearer. Often, those who specialize in risk bearing are best off contracting with the specialized risk takers.

Therefore, calls to atomize capital allocation decisions—that is, democratic (worker) governance—are, arguably, misguided because they turn employees into risk bearers with little means of diversifying their sources of risks, unlike the arm's-length investor who can hold a portfolio of uncorrelated stocks. Employee-owners are essentially holders of a portfolio consisting of a single stock over whose value they have little control, even in a democratic governance structure. Unlike the entrepreneurs they resemble, employee-owners have neither the capacity to influence the direction of the enterprise (given the high costs of coordination among atomistic decision makers) nor an efficient means to protect themselves from the moral hazard risks of those who do. Additionally, the laws of supply and demand for capital, goods, and services bind all companies, regardless of the identity of their owners. Therefore, any policy decision that distorts the allocation of resources (e.g., over-employment to protect jobs) exposes the company to the risks of increased competition from more efficient producers.

Discussions of capitalism are often met with skepticism about its essentialness to free choice. Hayek (1944) was probably the scholar most responsible for merging free choice (classical liberalism) and capitalism (a description of economic organization). However, those who read Hayek and his ilk carefully will discover that the exercise of free choice leads to capitalism, not the other way around. As governments around the world have shown, it is possible to approach an economy organized around prices (albeit distorted ones) without the need for free choice. Yet it is impossible for free choice to be exercised in an economy without the latter becoming organized along capitalist principles (i.e., supply and demand, return on capital consistent with risk taking). The reason is that free choice is exercised, in the main, to first serve the needs of the self, which leads us to the classical "invisible hand" result proposed by Smith (1776). We observe that the most vociferous critics of capitalism point to crony capitalism (Aligica & Tarko, 2014), which is the capture of institutions by business, as an indictment of the capitalist system (Schumpeter, 1911). Rather, corporatism, as crony capitalism is also known, is an example of failed *governments* tasked with enforcing the rules of the game, rather than of failed markets (e.g., Djankov, 2015; *Economist*, 2016).

Scholars looking for alternative models to classical capitalism also have to contend with the unit of analysis in their arguments. Conflating units of analysis often results in circular or non-arguments. The capitalist system works at the individual (consumer, manager) level. The sum total of individual choices yields the economy's production and consumption functions. Appeals to distributive and other forms of "social justice" often rely on institutions to reallocate the outcomes of individual decisions or constrain individual choice. While this is entirely acceptable when the issue is narrowly focused on paying for the costs of the "commons" (enforcing contracts, public safety, national defense, and the like) through taxation, models of distributive justice often target the capital allocation decisions themselves. As discussed, this can distort the price signal and reduce net economic and social welfare benefits. Instead, discussions of distributive justice should occur only at the end of the production value chain, at the point where the risk bearer has been compensated

[2] This is an old debate going back to at least the 1930s and the different perspectives of Hayek and Lang.

for bearing risk and is therefore free to assign the cash flows to maximize his or her own utilities, including altruism. We observe that society has yet to produce a more sustainable and welfare-enhancing alternative to individual philanthropy, which the capitalist system is uniquely designed to foster. This is because the returns to philanthropy, in the form of social capital, are part of the risk bearer's own production (risk bearing) function by increasing her reputational value and lowering the cost of reputational uncertainty in future contracting.

TOWARD A COMPREHENSIVE QUESTIONING OF ALTERNATIVE ECONOMIC ORGANIZATION

"Progressive" management research is a loaded term that we should regard as something not confined to a socialist agenda. We view progressive management scholarship as involving multiple streams of research, ranging from attempts to enhance different variants of capitalism through to the analysis of alternatives to capitalism of both the renewed populist left and right. The symposium presented in this issue is just one approach to stimulating progressive management research. While it is important to assess the extent to which different varieties of capitalism and their associated management approaches have proven to be more adaptable to environmental contingencies, it is also important to compare the effectiveness and adaptability of different economic systems.

Attempts to consider alternative approaches can benefit from drawing on research outside management, in disciplines such as economics, sociology, law, and finance. These fields have generated important insights into different organizational forms, the scale and scope of regulation, and other forms of government intervention in the economy beyond stereotypical caricatures of capitalism as involving unfettered atomistic competition among owner-managed firms. For example, an extensive theoretical and empirical literature in economics and related disciplines has already explored the efficacy of different organizational forms—such as cooperatives, strategic networks, and self-determination—in capitalist and socialist societies, and their limitations and boundary conditions are quite well-known (e.g., Ben-Ner & Jones, 1995). What might newer forms of democratic organization, such as (hybrid) social ventures, crowdfunding platforms, and the like learn from and add to these insights?

Similarly, there have been numerous studies on the efficacy of state-owned corporations in both capitalist and socialist societies that point to their shortcomings and the challenges of reconciling social, economic, and financial goals (Vickers & Yarrow, 1988). What changes in the economic, technological, and environmental context warrant a reassessment of these insights?

There is also an extensive debate in economics and legal studies regarding the appropriate forms and extent of the regulation of industry, including anti-trust policy and patenting activity (e.g., Kovacic & Shapiro, 2000). Emerging work on nonmarket strategies (Frynas, Mellahi, Sun, & Siegel, 2016) has highlighted how ideologically motivated interests opposed to the firm and a lack of competition for power among political actors can drive regulatory uncertainty that can influence firm-level investment decisions (Kingsley, Vanden Bergh, & Bonardi, 2012). To what extent do ideologically motivated interests influence industry regulation that, in turn, may have perverse consequences for entrepreneurial innovation, employment, and sustainable management forms? One could examine the link between such ideologically motivated interests and the propensity of firms to engage in corporate social responsibility, which can be used strategically to forestall additional regulation (Siegel, 2009).

Just as there is a research agenda to explore alternatives to capitalism, there is also a need to consider the boundaries of such alternatives. The development of new populist socialist and nationalist movements at the extreme ends of the political spectrum present apparently different visions of alternatives to capitalism, although they may have similarities in that they respond to dissatisfaction with the market ordering of production and consumption. To what extent do these represent progressive or reactionary movements, and what are the implications for sustainable management forms?

We already have a wealth of studies that underpin the worldwide moves toward privatization (Vickers & Yarrow, 1988). So-called progressive studies of alternative approaches that involve state control need to do more than simply turn the clock back to, say, an old and discredited form of socialist control of enterprise. Instead, they need to offer new insights. For example, there is now a burgeoning literature on new varieties of state capitalism that inter alia is exploring the economic and financial effects of the various ways that the state in many countries is attempting to claw back former state-owned enterprises into its control (Mussachio, Lazzarini, & Aguilera, 2015; Wood & Wright, 2015). In some nations, these actions are responses, ironically, to the problems of failed government or crony capitalism (Djankov, 2015; Frynas, Mellahi, Siegel, & Sun, 2016). Does state capitalism represent an evolution or distortion of the market, and what are the implications for forms of economic organization? More generally, to what extent do different forms of democratic organization work in different economic systems?

Finally, context matters when inquiring about alternative economic organization. In particular, the nature of government has important implications for the behavior of organizations (Sun, Mellahi, & Wright, 2012). Political economists have long been concerned about the extent to which the behaviors of firms, in response to government interventions, lead to perverse economic consequences. A good example is government-backed initiatives to promote certain industries, such as alternative energy, which can lead to over-investment in technologies that may be premature for successful market adoption. The resulting establishment of companies that are doomed to fail and subsequent misallocation of capital and labor from more productive uses have important economic and social consequences. Hence, we believe that a fruitful avenue for management research is to apply major theories such as resource-based, dynamic capabilities, and behavioral approaches to the analysis of public organizations (Klein, Mahoney, McGahan, & Pitelis, 2013). This, in conjunction with an analysis of human resource management issues in public organizations (e.g., the role of public-sector unions or HR practices such as job sharing) might greatly improve our understanding of the role of organizational factors in government failure.

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