

# Can an economy survive without corporations? Technology and robust organizational alternatives<sup>1</sup>

Gerald F. Davis  
The University of Michigan  
[gfdavis@umich.edu](mailto:gfdavis@umich.edu)

Forthcoming, *Academy of Management Perspectives*, 2016

---

<sup>1</sup> I thank Paul Adler for organizing this symposium, Donald Siegel for his thoughtful editing, and the reviewer for insightful comments that greatly improved the article's argument.

## Abstract

Shareholder-owned corporations were dominant for much of the 20th century in the US, yet their numbers are substantially declining in the 21<sup>st</sup>. This article argues that we are observing a regime shift in the transaction costs of organizing that disfavors traditional corporations. We are also seeing the emergence of low-cost, small-scale production technologies that will allow locally-based universal fabrication facilities. In combination, these changes are compatible with new forms of non-corporate enterprise. While corporations are basic units of production in many theories about the economy, they should be regarded as only one hypothesis about how production is and can be organized. Traditional alternatives to the corporation include producer and consumer cooperatives (e.g., Land o' Lakes, REI) and mutuals (State Farm, Vanguard). More recent possibilities include commons-based peer production (such as Linux and Wikipedia) and “platforms” that connect buyers and sellers (Uber, Airbnb). The raw materials are available for more democratic and locally-oriented enterprise. Management scholarship has an opportunity to document and encourage this movement.

**Keywords:** shareholder capitalism, corporate governance, new organizational forms, organization design

We are living through a period of radical shifts in how business is organized in the United States and around the world. In many sectors, the corporation--the dominant economic form of the 20th century--is under siege. The number of public corporations (those with shares traded on stock markets) has dropped by over half in the US since 1997 (Davis, 2016). National retailers like Blockbuster, Borders, and Circuit City are liquidated in favor of lightweight online alternatives. Century-spanning brands like Westinghouse and Eastman Kodak are rendered irrelevant. Even hotel chains and taxi companies face new forms of competition thanks to smartphone apps. Many of the corporations that remain engage in nearly continuous restructurings. Every week brings news of corporations either splitting up into constituent elements (Hewlett-Packard, Time-Warner, Dupont, Alcoa, Abbott Labs, Sony), going private or bankrupt to radically restructure (Dell, GM), or evaporating entirely (Lehman, Countrywide). Even GE, the venerable conglomerate and vanguard of every new trend in management, is abandoning most of GE Capital, America's seventh-largest bank and once the source of half the company's profits.

This article argues that that we are witnessing the results of a regime shift in the costs of organizing. Information and communication technologies have made it much cheaper to organize commercial activity on a small and provisional basis rather than investing in long-term institutions like corporations. Corporations are costly compared to pop-up businesses. Moreover, computer-controlled production technology is getting more powerful, cheaper, and smaller. The economies of scale that made corporations so dominant in the 20th century are flipping into diseconomies in many cases, while locavore alternatives are increasingly cost effective.

What comes next? Is the shrinking number of corporations a reason to panic, or an opportunity to create alternatives that better serve human needs? I argue here that new technologies enable new forms of enterprise that can be more democratic and that can ameliorate some of the problems

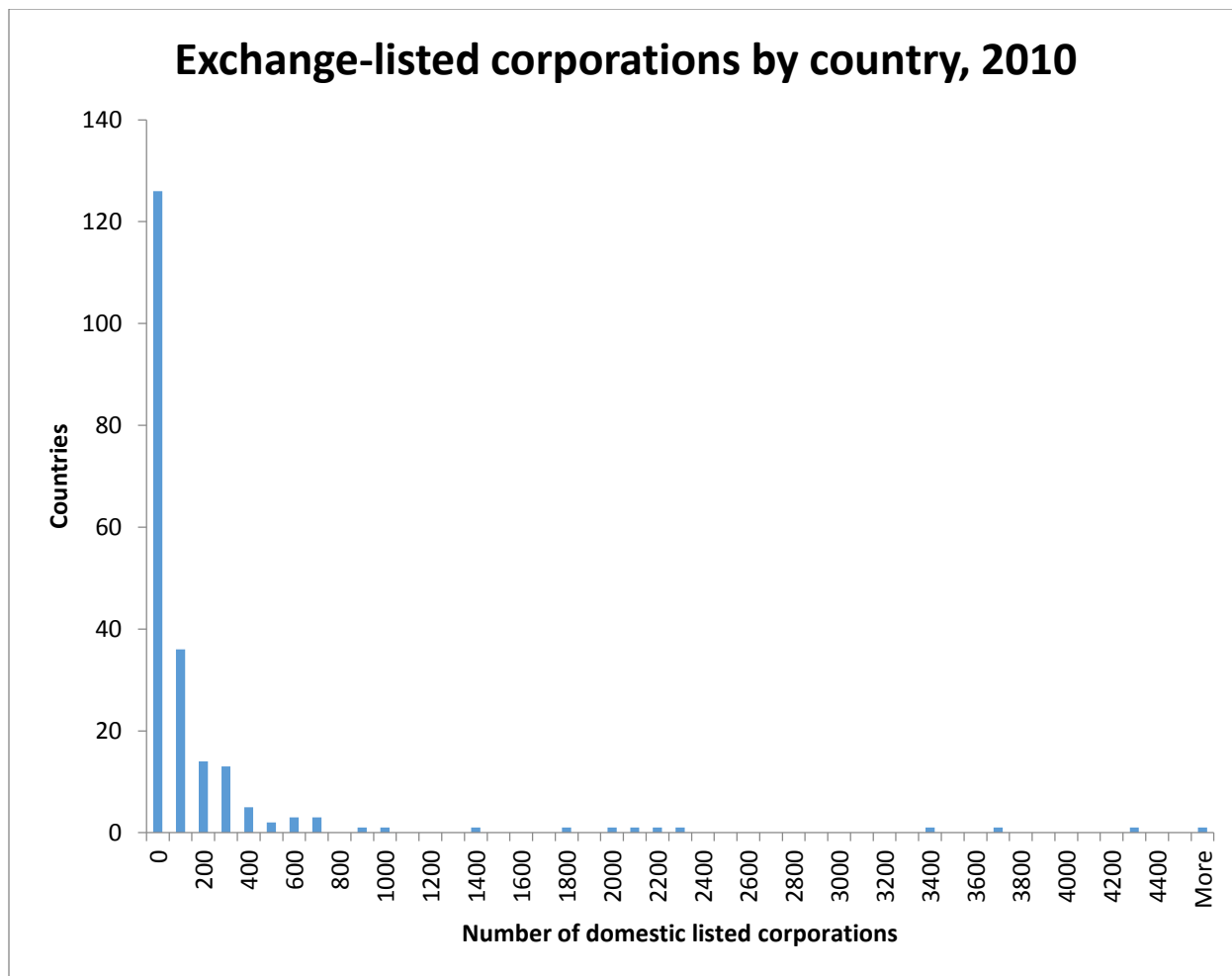
created by late-stage shareholder capitalism. I describe some of these developments and the possibilities they open. I begin with a brief discussion of some approaches to the organization of business to provide an orientation to the argument. I then describe why corporations became dominant and how the pathologies of shareholder capitalism have undermined some of the benefits of the corporate form. I discuss technological trends that are changing the economic viability of the corporation, and survey some of the alternatives, both ancient (cooperatives, mutuals) and new (peer mutualism, platforms). I close by suggesting that new technologies will not choose the path ahead for us, but that it is up to us to determine which way our enterprises will develop. Values and politics, not technology alone, will shape enterprise, and management researchers have a positive role to play, if they choose to do so.

## The social organization of the economy

What does it mean to ask how business is organized? This may seem like a simple question, but scholars have focused on very different aspects of the organization of business. Different theories of the firm focus on different questions: what price/quantity combination firms choose; what kind of legal structure is most efficient; how firms raise capital to fund their operations; which inputs should be made inside the firm's boundary, and which should be purchased on the market; how different ownership structures shape incentives for managers to make different decisions.

At a more basic level, one might ask what exactly counts as a "firm." General Motors or Toyota would clearly seem to count as firms. But what about Linux, the open-source software operating system produced by anonymous volunteers? Or Wikipedia? How about a Hollywood film production team? Or a group of impromptu laborers assembled at a Home Depot parking lot to install a patio? The definition of a "firm" is not self-evident.

Behind this ambiguity is a basic observation: there are a lot of different ways to produce a shirt, or a television, or a software program, or a financial instrument. Economies vary widely in how these activities are accomplished, and how they do it changes over time. American management scholars often assume that the exchange-listed corporation is the default form of doing business, as it has been in the US for over a century. Business school curricula reflect this norm, typically requiring courses on accounting, finance, and strategy oriented toward public corporations. Classes on entrepreneurship almost inevitably describe an initial public offering (IPO) of shares as a desirable “exit strategy.” Yet most of the world’s economies do not have a stock market, and half of those that do have markets (including China and most of Eastern Europe) only created them within the past 30 years. As Figure 1 suggests, the US is an extreme outlier relative to the rest of the world in its reliance on public corporations. Moreover, the dominance of the public corporation may be ending in the US as well, because the number of listed corporations has been in long-term decline for two decades.



**Figure 1: Distribution of countries by number of domestic exchange-listed corporations in 2010 (Source: World Bank World Development Indicators)**

For the purposes of this discussion, I will draw selectively on three different traditions that focus on different aspects of the social organization of the economy: transaction cost economics, the contemporary theory of the firm in law and economics, and the comparative institutionalism of “varieties of capitalism.” I briefly describe these below, but note that my goal is to give a brief orientation and not a comprehensive overview.

Transaction cost economics focuses on the boundaries of the firm. Ronald Coase (1937) famously asked why there are firms at all rather than just market transactions, and answered that

using the price system came with its own costs. Production costs and transaction costs both contribute to the overall cost of organizing production, and sometimes firms were cheaper overall than markets. Oliver Williamson (1985) detailed the specifics of when it made economic sense for firms to make inputs rather than buying them on the market. When inputs entailed firm-specific investments that were uniquely valuable to a particular relationship, it was often worthwhile to protect the transaction by bringing it inside the firm's boundary. Notably, Williamson's account encompassed the employment relation, seeking to explain when firms would seek to retain employees for the long term by providing benefits and career ladders, rather than "renting" contractors on an ad hoc basis. Williamson's approach is also valuable for its institutional agnosticism: although the opening question is "Why do we have firms?", the real underlying question might be framed as "What accounts for the diversity of ways that products and services are delivered?" (I will call this broader system of delivery, which may or may not be a single firm, the "enterprise.") A vertically-integrated firm might be one answer; a thoroughly dispersed supply chain might be another, and there is no reason to imagine that the integrated firm (or the dispersed supply chain) is always the most economical answer.

A critical implication of this approach is that when broad transaction costs change (e.g., due to information and communication technologies), the economical form of enterprise will change as well. For instance, Coase noted that the advent of the telephone made large and geographically dispersed firms relatively more cost effective than in the days of the telegraph.

Contemporary theories of the firm in law and economics ask how law and other institutions shape the financing of firms. Production costs and transaction costs are important for shaping how enterprises look, but how they are financed is also critical. A business funded by a family or a government will be controlled and managed very differently from a one funded by a stock

market. Theories of corporate governance provide an elaborate account of the institutions that shape how corporations are structured, from boards of directors and accounting firms to corporate law and the market for corporate control (see Davis, 2005 for a review).

An implication of this approach is that when the means of financing business changes, the dominant form of enterprise is likely to change as well. For example, when a country creates a stock exchange, enacts legal protections for shareholders, and opens its economy to foreign investors, domestic businesses may come to look more like American-style public corporations (Useem, 1998).

Finally, the “varieties of capitalism” perspective in political science describes how economy-level institutions shape the organization of the firm. The varieties-of-capitalism (VOC) approach (Hall & Soskice 2001; Amable, 2003; Aguilera & Jackson, 2003) switches the figure and ground in the theory of the firm to examine economy-level institutions that provide the raw materials for creating enterprises. Firms look very different in countries around the world, and the VOC approach attributes this diversity to different institutions that shape the feasibility and broad cost profile of different ways of organizing: how labor markets are organized, how product market competition is regulated, how finance is channeled, how the workforce is educated, and what kind of social safety net is in place. A key insight of VOC is that the configuration of these institutions favors some kinds of enterprises over others. Germany’s large banks, strong vocational education system, export-oriented product market regulation, and labor participation in corporate governance supports family-owned manufacturing businesses. America’s vast capital markets, strong research universities, and modest labor protections favor technology entrepreneurship.



The VOC approach implies that it is the configuration of institutions in an economy, and not just a single factor such as finance or technology, that shapes enterprise. Thus, installing a stock exchange may change how finance is channeled to some businesses, but it will not be sufficient to create American-style corporate capitalism because of the existence of other relevant institutions around product markets, labor, education, and social welfare. An excellent recent collection (Kogut, 2012) surveys the diverse national responses to the global spread of financial markets during the 1990s. The experience of dozens of countries shows that stock markets and foreign investors alone were not sufficient to overcome long-standing domestic institutions, but often resulted in hybrid forms of governance. Thus, varieties of capitalism can adapt (e.g., when technologies change, or when particular factors like financial markets grow in significance), but there is likely to be considerable institutional inertia.

The upshot of this discussion is to point to a variety of factors that can account for why forms such as the public corporation might arise and become dominant, and why they might fall. I next apply these ideas to the American corporation.

### The pathologies of shareholder capitalism

It is widely agreed in American business today that corporations exist to create shareholder value. Mission statements almost inevitably describe creating shareholder value as a central purpose of the organization. It is the standard rationale for restructurings, layoffs, stock buybacks, and corporate inversions. Indeed, many mistakenly believe that allegiance to shareholder value is a legal duty of corporate officers and directors (Stout, 2012).

This was not always the case. For much of the 20th century, shareholders were largely irrelevant. Peter Drucker wrote in 1949, “A growing number of our large enterprises are run on the model which Owen D. Young proposed twenty years ago, when he was head of the General Electric

Company: the stockholders are confined to a maximum return equivalent to a risk premium. The remaining profit stays in the enterprise, is paid out in higher wages, or is passed on to the consumer in the form of lower prices” (Drucker, 1949). The post-War consensus held that corporations were social institutions with broad obligations to society, while the theology of shareholder value only began to take hold with the takeover wave of the 1980s.

The rise of finance and the shareholder value revolution has been described in detail elsewhere (Davis, 2009). Some of the key elements include changes in law and antitrust that enabled the 1980s hostile takeover wave, in which roughly one-third of the largest American corporations were acquired or merged and often split up into component parts; the increasing power of institutional investors over corporate decision-making; changes in executive compensation toward the awards of stock options and restricted shares; and the advent of the 401(k) plan, through which much of the American population began to invest in the stock market for the first time. In combination, these factors reinforced the view that creating shareholder value is and should be a dominant objective for the corporation.

Shareholder value capitalism comes with a standard playbook of strategies (Useem, 1996).

Financial markets signal their approval or disapproval by the valuations they give to companies. Sara Lee was #57 in the Fortune 500 list in 1997 when its CEO announced a plan to sell off its factories in order to boost its stock market valuation. Its CEO stated, “Wall Street can wipe you out. They are the rule-setters. They do have their fads, but to a large extent there is an evolution in how they judge companies, and they have decided to give premiums to companies that harbor the most profits for the least assets.”

Thus, many companies, including Sara Lee, sought to look more like Nike, focusing on design and marketing but minimizing employment and tangible assets by outsourcing production and

distribution. Industries such as computers and electronics have almost universally outsourced production to electronics manufacturing services firms, with US employment in the sector declining by more than 40% since 2000 (Davis, 2016). Garments, pet food, pharmaceuticals, and core aspects of national security have been similarly “Nikefied.” Other market-approved tactics include stock buybacks and the creation of offshore entities for tax purposes. 17 years after announcing its de-verticalization, Sara Lee – now known as Hillshire Brands – had shrunk to a tiny fraction of its former self, and the remaining stub was bought by a competitor.

As a result of this dynamic, creating shareholder value has become largely detached from creating remunerative employment. For most of the post-War era, the companies with the biggest market capitalization were those with the biggest labor force, revenues, and assets. “Big” meant big on all dimensions. Table 1 compares the firms with the largest market capitalizations in 1962 and 2012. Although the civilian labor force had more than doubled from 71 million to 156 million, the most valuable firms (other than Walmart) were much smaller than their predecessors.

1962		2012	
Company	Employees	Company	Employees
AT&T	564	Apple	76
GM	605	Exxon	77
Exxon	150	Microsoft	94
DuPont	101	Google	54
IBM	81	Walmart	2200

**Table 1: Top five market cap US corporations and the size of their workforces (in thousands)**

**(Source: Compustat)**

Some firms that are highly valued by the market are even more radically tiny. At the end of 2015, Facebook's market cap was nearly \$300 billion (larger than JP Morgan Chase), but it had just 9200 workers and \$12.5 billion in annual revenues in 2014. Meanwhile, Kroger -- America's second-largest employer, with 400,000 workers and over \$100 billion in revenues -- was valued at just \$41 billion.

Markets do not reward moves to create jobs or to provide decent wages -- if anything, they punish it. Walmart--America's largest employer by far--announced a plan to raise the minimum wage for its US workers to \$9 per hour on February 19, 2015, at an expected cost of \$1 billion for the year. By the end of the day its share price had dropped by 3.2%, or more than \$8 billion.

Thus, our system of shareholder-owned corporations may be good for shareholders, but it is often detached from the economic benefits we expect from them--starting with the creation of economic opportunities. The biggest American employers are almost entirely in retail, providing low wages and limited career opportunities (Davis, 2009). Stock markets reward companies that create few permanent full-time jobs. Valuations are also largely detached from revenues. It is clear that shareholder capitalism has become misaligned with some of the most crucial benefits we want from an economy, such as stable employment.

### Are corporations inevitable?

If shareholder-owned corporations are not providing the benefits that society wants from them -- particularly stable full-time employment -- then are we stuck? Are corporations the only way to organize an economy, or are there alternatives?

For most of the 20th century, the answer would have been clear: “capitalism” was almost synonymous with “corporations.” Alfred Chandler (1977) argued that a continent-wide transportation system, economies of scale in manufacturing and distribution, and sophisticated systems of bureaucratic management made the corporation the most economical way to produce and distribute goods in the United States. A wave of mergers among regional producers around the turn of the 20th century left most major industries organized into a handful of exchange-listed oligopolies. The virtues of American-style mass production became evident during the First World War and spread widely after that -- even to the new Soviet Union, where Henry Ford was an icon. Cars and refrigerators and petroleum and steel were cheaper when they were made in giant factories, and giant factories often required capital on a scale too large for family-owned businesses. In the US this meant that the public corporation, with shares traded on stock markets, came to dominate industry. Economic theories were premised on the idea that the corporation

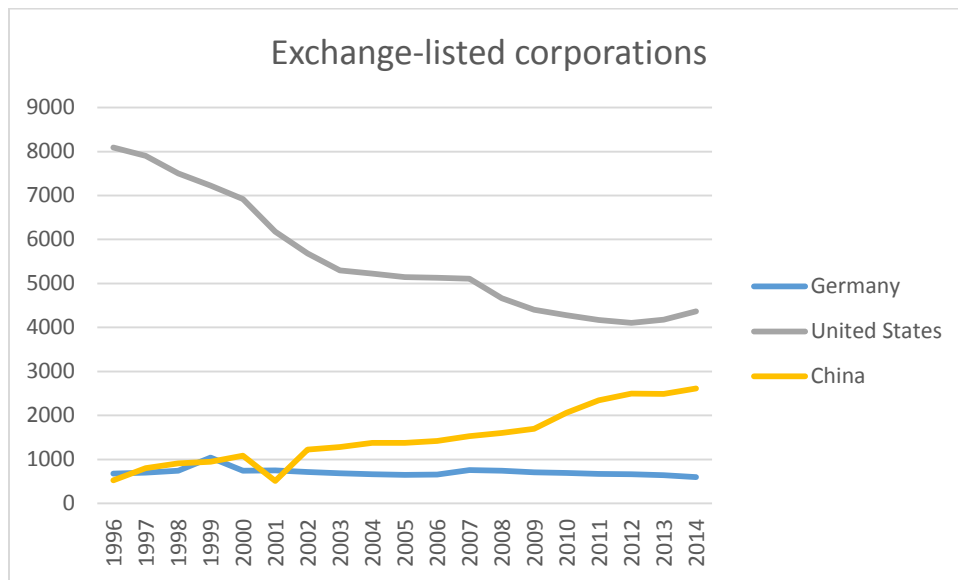
was inherently dominant, in spite of its flaws (e.g., the limited control created by dispersed share ownership and the high overhead associated with managerial hierarchies), because it was more economically efficient than the alternatives. These alternatives were winnowed out, dead ends on an evolutionary path not taken.

Thirty years ago, Piore and Sabel (1984) pointed out that this potted history was not entirely correct and relied too heavily on the peculiar American experience. Other advanced industrial economies managed to get by with alternative ways of organizing industry. Italy still had vibrant industrial districts producing high-end products, from fashion to Ferraris. Germany was a global manufacturing powerhouse, yet public corporations were a much smaller part of its economy. Banks (rather than markets) were a major source of funding, and family-owned businesses were an essential element of its manufacturing prowess.

Twenty years ago, Mark Roe (1994) argued compellingly that financing business through stock markets was not inevitable even in the US, but reflected the peculiarities of American politics and its federal system of regulation. If the US had giant national banks when it industrialized, as Germany did, public corporations might have been much less dominant. Moreover, most countries in the world did not even have a stock market until fairly recently, and less than half of the world's 200 nations have a functioning stock market today. Public corporations are perhaps less inevitable than we thought.

Figure 2 compares the number of listed corporations in China, Germany, and the US since 1996. All three are vast and growing economies with large manufacturing sectors and strong exports, yet the comparisons are stark: while China has seen nearly continuous growth in listed companies since it opened its first post-revolution exchange in 1990, the US has seen an almost

continuous decline since 1996. Meanwhile, Germany has varied only modestly over this period, with about 600 listed companies in 2014.



**Figure 2: Corporations listed on domestic stock markets in China, Germany, and the United States, 1996-2014 (Source: World Bank World Development Indicators)**

The prevalence of corporations appears to be unrelated to broader measures of economic vibrancy. Moreover, even where they exist, corporations are far more diverse than the use of a single term implies. In this sense, corporations are like breakfast: around the world, the first meal of the day might consist of a croissant with jam (France), soup and rice (Korea), smoked fish with dark bread (Sweden), salads (Israel), pancakes with maple syrup (Canada), muesli and yogurt (Switzerland), or eggs, sausage, and baked beans (England). The use of a single term belies the vast diversity of what “breakfast” or “corporation” actually mean in practice. A simple example: What should the board of directors of a publicly-traded auto company look like? How big should it be, and what kind of people should serve as directors -- executives, employees,

investors, government officials, or outsiders? After more than a century of operations and the globalization of financial markets, the auto industry should have figured this out. Yet in the US, the board of General Motors includes the CEO and ten outsiders, who are mostly retired CEOs of other companies. In Japan, the board of Toyota includes 21 directors, most of whom are current or former Toyota executives. Under German law, half of the supervisory board is elected by employees to represent labor, as are 10 of the 20 board members at Daimler. China's Geely Automotive board, in contrast, includes eight executive and six non-executive directors.

Needless to say, the diversity of their organizations does not stop with the board. There is no obvious convergence on the one best way, even if global shareholders might prefer it otherwise.

There are a lot of ways to organize the production of a car, or a dress, or a computer program, or a mutual fund. Even in highly competitive industries, we often find wildly divergent ways of organizing that survive side by side. This is true even in finance. Mutual fund companies sell a more or less generic product with explicit and easily-compared performance metrics. After seven decades, the industry should have winnowed out the less competitive ways to organize. Yet Vanguard, the biggest operator, is organized as a mutual, owned by the people who buy its low-fee index funds. Fidelity is a private company half-owned by the Johnson family, and uses in-house fund managers advised by its own analysts. T. Rowe Price is a publicly-traded corporation and contracts the management of its funds to outside firms. And TIAA-CREF is a non-profit organization operated on behalf of its participants. Even within a single economy, in which firms face the same configuration of institutions, perhaps there is not a single best "natural path of opulence," as Adam Smith put it.

Both transaction cost economics and the VOC approach point out that the nature of individual enterprises varies according to ambient resources for creating a firm. Just as the telephone



enabled larger and more dispersed firms, the revolution in information and communication technologies of the past generation has radically changed the possibilities for what an enterprise can look like. Most of us now carry with us a tiny wireless supercomputer/video camera/GPS/communicator that would have filled a room 40 years ago, and that provides access to all the world's knowledge instantaneously. It is inevitable that this will radically change the kinds of enterprises that are created, just as it has changed the frequency and form of social movements around the world. Ubiquitous smartphones have already enabled the creation of new industries virtually overnight, such as platforms for transportation (Uber and Lyft), personal temp services (TaskRabbit), and temporary relationships (Tinder, Grindr). They are also certain to change the nature of the employment relationship and the shape of enterprise.

The recent proliferation of alternative forms of doing business, and the declining prevalence of public corporations, suggest that we are observing the results of shifts in the underlying transaction costs of organizing. But how this plays out, and whose needs are met, is not foreordained, and it is far from inevitable that the corporation will end up being the best or most economical format. Yochai Benkler (2013) notes that “peer mutualism” in the form of free and open source software (FOSS, e.g., Linux, Firefox, Apache) and Wikipedia have provided proof of concept that large-scale voluntaristic cooperative alternatives to corporations are possible: “Over the course of the first decade of the twenty-first century, commons-based peer production has moved from being ignored, through being mocked, feared, and regarded as an exception or intellectual quirk, to finally becoming a normal and indispensable part of life.” Our contemporary Web-enabled economy relies at countless critical places on free products created through voluntary collaboration. Millions of servers rely on Linux and Apache, and millions

more undergraduates rely on Wikipedia when writing their papers. (Thousands of PhD students also rely on R, another free and open source software, for their regressions.) As Benkler notes, these are the products of working anarchies in which voluntary cooperation without the need for property or state intervention is the main mode of operation. Not only are corporations not essential; in many cases, they are not even competitive.

## Technology and organizational form

The most persuasive case for the inevitability of the corporation is economies of scale. Even smartphones are assembled in giant factories employing hundreds of thousands of workers in China. If bigger is cheaper, and being big requires capital on a large scale, then corporations are likely to maintain their advantages over other forms, even in a world of ubiquitous smartphones. Artisanal jumbo jets, or locally-brewed petroleum, are not plausible at the moment. But we have already seen that large-scale non-corporate forms of collaboration are possible, at least on the Web. Linux and Wikipedia demonstrate that free, non-proprietary products superior to their commercial alternatives can be produced entirely by voluntary labor.

Here again, technological changes may favor non-corporate alternatives. Production technologies are now emerging that allow small-scale manufacturing at low cost, creating even more new possibilities. The revival of microbrewing and local coffee roasters suggest that it might not always make sense to brew all the nation's beer in St. Louis and then ship it to local stores in refrigerated trucks, or roast and can all the nation's coffee in one giant factory weeks before it is consumed. Small-scale production equipment has dropped dramatically in cost in recent years. Computer numerical control (CNC) technology has made lathes, routers, machine tools, laser cutters, and other production machinery more accurate and much cheaper than it used to be. Much as the laser printer enabled those of us with no background in design or typography to

create sophisticated documents cheaply, CNC machines allow those with minimal skills to produce goods at low cost. As an example, the ShopBot Router (which costs less than a semester's tuition at a private college) could produce much of the Ikea catalogue, as well as far more sophisticated furniture, using electronic cut files. Cut files can be produced using software freely available online; alternatively, it is possible to download and modify designs already posted on the Web much the same way that programmers can download and modify open source software.

It is easy to imagine universal fabrication facilities open to the public that contain CNC machine tools, laser cutters, 3D printers, and other high-tech production equipment. Indeed, this is the business model of TechShop, which charges a monthly fee to use the equipment (much like a gym) and has already spawned dozens of businesses. On the other side of the valley of de-skilling that scholars warned about in the 1970s is a world where design skill is enough to be a micro-producer. I know from personal experience that an imaginative 14-year-old can download 3D designs on the web, customize them on her laptop, and "print" them at the local fab facility. Given the trajectory of technological development and rapidly declining costs of equipment, it is clear that within a few years every town could be equipped with such a facility for under \$1 million, perhaps housed on a disused floor of the local library. Starting a small manufacturing business (e.g., custom furniture from rescued wood) would not be much more costly than starting, say, a home cleaning business. Barriers to entry, at least at the low end, would effectively vanish.

If mass production technology prompted the spread of the large corporation, what will contemporary technology promote? As Piore and Sabel (1984) demonstrated, the format for

organizing the production of goods is not foreordained. Technology is not destiny. In the rest of this article, I describe some of the possible alternative pathways.

## Alternatives: cooperatives and mutuals

Although corporations came to seem inevitable, at least in the American context, a closer examination shows that non-corporate alternatives continued to operate alongside or even in opposition to shareholder-owned corporations from the very start of the “corporate revolution.” Marc Schneiberg (e.g., Schneiberg, King & Smith, 2008) shows that non-corporate alternatives thrived during the late 1800s and early 1900s in industries like grain milling, milk processing, and insurance. Non-corporate alternatives tended to proliferate in “ecosystems” that were mutually supportive. Agricultural coops were often found in places with mutual insurance companies and municipal phone companies. He argues that the lessons learned in participating in one type of enterprise transferred over to the others, creating symbiotic relations among different organizations across industries. When people see non-corporate forms working in insurance or food processing, they see them as plausible alternatives in other domains.

## Cooperatives

Although worker-owned cooperatives loom large in the imagination, they are far less prevalent in the US than in some other economies, numbering under 1000 today. They have nonetheless played an important historical role by exemplifying a democratic alternative to the standard corporate form (Rothschild, 2016). Producer cooperatives are common in agriculture around the world. Farmers often require costly processing equipment that is used only intermittently (e.g., grain milling). It makes sense to pool resources and share capital equipment whose capacity would not be filled by individual producers. They can also benefit from banding together to speak with one voice, either for marketing commodity products (such as butter or cheese) or to

bargain more effectively with vendors (e.g., railroads). Coops are an obvious choice for groups of independent producers. In the US, there are several agricultural cooperatives that date from up to a century ago and still maintain a strong position in their sector, including Land o' Lakes (dairy), Ocean Spray (cranberries), and Blue Diamond (almonds).

There are also instances of more traditional businesses transitioning to cooperatives. After almost 50 years in business, Ace Hardware's founder sold the parent company to its retailers in 1973, thus making the chain a retailer-owned cooperative. The US also has a handful of consumer coops, such as REI (a national athletic goods retailer) and various food cooperatives in college towns.

How do new technologies influence the prospects for coops? First, much of the research on coops shows that the endless time spent in meetings is a drag on their viability. Rothschild and Whitt (1986) find that upwards of 20% of members' time is spent in meetings, making coops comparable to some academic departments. Yet ICTs can lower the transaction costs of exercising voice and democracy. As new forms of democratic organization are tested and developed, their experience can serve as a feedstock for new technologies of collaboration (Rothschild, 2016). Not every decision requires a face-to-face meeting; for many purposes the smartphone "workplace democracy app" could allow democratic participation without the endless meetings. Second, the same rationale for agricultural coops applies to manufacturing: if banding together and pooling resources to buy equipment for common use works for processing grain, it can work for CNC routers, lathes, and laser cutters. A cooperatively owned high-end fab facility is compatible with production for many kinds of non-competing businesses.

## Mutuals

A second form of non-corporate business is the mutual, in which the residual claimants are not shareholders but the consumers themselves. Some of the biggest insurance companies in the US are mutuals, including State Farm (#41 in the Fortune 500), Liberty Mutual (#76), Nationwide (#91), and Massachusetts Mutual (#96). Policyholders are also in effect the owners. Vanguard, the largest mutual fund family, is also organized as a mutual.

One of the most successful types of mutual is the credit union. In the US, credit unions are non-profit organizations by law; their residual profits are used for member benefits, such as educational programs. Roughly 100 million Americans belong to credit unions, and they have a solid record relative to shareholder-owned financial institutions. Mutuals are especially well-suited to financial products, where they are already prevalent in insurance. Here, extensions to the mandate of credit unions (which are restricted from business lending) may be the most obvious next step.

### Municipal businesses

A final type of non-corporate business that is widespread in the US is the municipal business. In cities and towns across America, water companies and electric companies are owned by the municipality itself. Municipal ownership lends itself to infrastructure. In the US, cable television, broadband access, and wifi are typically provided by corporations, but could be re-imagined as municipal utilities.

### Alternatives: commons-based peer production

The Internet has vastly expanded the possibilities for large-scale coordination and facilitated the creation of highly effective non-corporate enterprises. In a series of books and articles, Yochai Benkler (2011, 2013) makes the case that our current networked environment contains several “working anarchies,” and in fact relies on them to operate. These are anarchies in the sense that

they are self-organized, voluntary, non-hierarchical, and eschew government-backed property rights. They are remarkable for many reasons. The idea that thousands of people around the world could collaborate with strangers to produce anything, much less the software and knowledge architecture that underlies the online world, seems nothing short of miraculous. These are products requiring a level of coordination that should only be possible under the hierarchical authority of a corporation or a government, yet they emerged over the past few years almost spontaneously, in the absence of (much) formal organization.

Two broad examples of working anarchies that we have already touched on are free open source software (FOSS) and Wikipedia, both of which have received some scholarly attention. It is worth reflecting on just how pervasive these are in daily life. According to Benkler (2013: 220-1), “Free and open source software programs account for roughly three-quarters of web servers, the software that a server runs to respond to browser queries (Apache; nginx); more than 70 percent of web browsers (Firefox, Chrome); server-side programming languages (PHP alone is >75 percent share); content management systems (Wordpress, Joomla, and Drupal have slightly more than 70 percent of servers); all the way to enterprise stock management or statistical software, R. The sheer scale of our networked information economy’s dependence on free software is staggering. Moreover, FOSS has become a critical part of the strategy of firms; just under 40 percent of firms engaged in software development report spending development time on developing and contributing to FOSS software.” Our online world could probably survive without corporations, but it simply would not work without the products of working anarchies.

How do working anarchies operate in practice? Siobhan O’Mahony and Fabrizio Ferraro (2007) describe how open source software development is governed in the Debian community. As Benkler describes it, details of how decisions are made and how disputes are resolved vary

across communities. Some rely on a charismatic founder as a symbolic backstop; many have a meritocratic system of allocating status, but this does not translate into “being a boss;” some have formal elections; others use a norm of rough consensus to make decisions.

Research on open source software still at a relatively early stage in the organizations literature, but promising works are emerging (e.g., O’Mahony and Ferraro, 2007). The clear success of these cases raises the tantalizing question of whether their lessons can be transferred to domains outside the Internet. We have proof of concept that working anarchies can work: we already use their fruits on a daily basis. What is less well-understood is how best to capture their essential features and apply them in other domains. But the digitization of much of social life, and peoples’ widespread experience with the online versions, suggests that this is increasingly possible.

### Alternatives: platform capitalism

A final and more recent set of possibilities can be described as “platform capitalism.” Platform capitalism is a more accurate nomenclature for the sharing economy, and particularly online (often mobile) systems that connect buyers and sellers (e.g., Uber, AirBnb, TaskRabbit). While tool libraries and other forms of sharing have a long history, what is different now is the greatly reduced costs for connecting transactors (sharers, or buyer and sellers) enabled by information and communication technologies, particularly the smartphone. At the extreme, everything one owns and all of one’s capacities can be made available for exchange through online platforms. It is clear that this is going to have transformative effects on the nature and location of markets for capital, labor, products, and services, as well as the institutions that regulate and build on them. Yet thus far our understanding of these platforms and their trajectories is still based largely on anecdote and speculation.



In an insightful early analysis, Juliet Schor (2014: 2-3) describes four categories of the so-called sharing economy: “recirculation of goods [e.g., eBay and Craigslist], increased utilization of durable assets [AirBnB and Uber], exchange of services [TaskRabbit, time-sharing banks], and sharing of productive assets [makerspaces, co-working spaces].” Some of these are simply online versions of forms of exchange that have existed for some time: Craigslist is not so different from the classified advertising section of a newspaper. Others are entirely new and are only possible due to the widespread adoption of smartphones since 2007.

The earliest incarnations of these platforms have been criticized for enabling new forms of erratic low-income labor, and for profiting at the expense of more established vendors (such as taxi companies and hotels). Some have referred to the class of laborers with intermittent income as the “precariat.” But immiseration is not intrinsic to these platforms, and they are not intrinsically corporate. At this writing, Uber has perhaps 4000 employees, but 327,000 “driver-partners” in North America. AirBNB has 2500 employees but over 1,000,000 listings worldwide. The eventual fate of this form of “micro-entrepreneurship” is uncertain, but the lesson of past economic transitions is that technology is not destiny: platforms are highly malleable, and there is clearly room for non-corporate alternatives. Schor describes the possibilities for a social movement of sharers, with existing platforms becoming “user-governed or cooperatively owned... The fact that users create so much of the value in these spaces militates in favor of their being able to capture it, should they organize to do so. To date, that type of movement has not developed, but it still might” (2014: 11). After all, the platform is not a producer itself, but simply a broker for transactions. It’s a safe bet that any kind of software platform that can be created by a 20-year-old in her dorm room is not likely to be a durable commercial monopoly.

The divergent experiences with platform capitalism around the world reinforce the VOC idea that technology is not destiny: the same technology will be implemented in different ways depending on surrounding institutions. Thus, while Uber seemed like an unstoppable force that spread like bamboo in the United States, in Germany its reception has been much less hospitable. Germany requires health exams, special state licenses, and security checks for taxi drivers, and Uber's inability to recruit suitable drivers led it to pull out of Dusseldorf, Frankfurt, and Hamburg. Meanwhile, locally-based competitors, in collaboration with licensed drivers and unions, have launched their own successful version of app-based ride hailing services across Germany (Scott, 2016). Notably, Walmart also withdrew from Germany in 2006 after nine unsuccessful years.

## Conclusion

Thirty years ago, Rothschild and Whitt (1986: 190) ended their book about the experiences of cooperatives in the 1970s with a hopeful thought about the possibilities created by emerging technologies:

Possibly the collectivist organization can arise only where technological capacity is great enough to free most from toil. We can hunt in the morning, fish in the afternoon, and talk philosophy at night only when we have the technological capacity to easily sustain material existence. When work is relatively free from the press of necessity it becomes self expressive, playful activity. The mechanical industrial age vastly increased humankind's capacity to reproduce material existence. Now we appear to be moving into an electronic age which vastly increases our capacity in this respect and also alters the nature of work, from transforming things to creating and disseminating new values, services, and knowledge. This transformation perhaps will give us more freedom to merge work with play.

As I have described in this paper, we are now at a branching point in how we organize the economy, made possible by ICTs and low-cost, small-scale production technology. The diversity

of new industries and forms, and the early experience of the sharing economy, show that many future directions are possible. The technology is compatible with the vision of autonomy and democracy described by Rothschild and Whitt, but it is also compatible with a precarious labor market in which careers have devolved into jobs, and jobs into tasks. The declining number of corporations, and the move from manufacturing to service employment (particularly in retail), has been accompanied by a shift toward unpredictable work hours, income, and benefits for many.

My aim in this article has been to advance the argument that corporations are not the inevitable way to organize economic activity, and that we have a wide range of alternatives open, from the revival of old forms like the cooperative to the creation of new platform-based forms. ICTs have led to simultaneous changes in production technology, financing, and governance, creating the raw materials for entirely new forms of enterprise. They also enable institutional transfer, as practices can be documented and shared globally. Just as Linux and other open source software can be shared and adapted, practices of democratic governance can also be thought of as open source innovations that can be modified according to circumstance.

Management scholarship can help guide practice in a more humane direction, if we choose to do so, by seeking and documenting alternatives that can serve as a sort of organizational seed bank. We will, however, need to break some ingrained habits as researchers. First, we should not start our search with corporations. The ready availability of time-series data on corporations makes them almost irresistible as a default unit of analysis. Yet sometimes the easy path is not the most informative one, and here we might draw on the example of transaction cost economics and its agnosticism. A corporation is one way to produce an online encyclopedia, or an operating system, but if we failed to consider non-corporate alternatives, we would end up with a

misleading view. Second, we should not define performance purely, or even primarily, in terms of profit. Alternative measures might include the creation of jobs, the stability of wages, growth in the wealth of participants (see Blasi's paper, this issue) or the level of democracy achieved.<sup>2</sup> Third, we should not be bound by the American experience. As we have seen, America is highly idiosyncratic in its heavily reliance on the public corporation and in the forms that they take. Most of the world's economies do not have a stock market, and if they do, they have relatively few listed corporations, and the ones they have rarely have dispersed ownership. Rather than viewing the vast majority of the world as an aberration, we might instead ask what can be learned from the rich diversity of alternative forms of enterprise.

---

<sup>2</sup> These first two suggestions may be a problem for research sub-fields organized around the question "Why are some firms more profitable than others?" I am willing to take that risk.

## References

- Aguilera, R. V. & Jackson, G. 2003. The Cross-National Diversity of Corporate Governance: Dimensions and Determinants. *Academy of Management Review* 28: 447-465.
- Amable, B. 2003. The Diversity of Modern Capitalism. New York: Oxford University Press.
- Benkler, Y. 2011. The Penguin and the Leviathan: How Cooperation Triumphs Over Self-Interest. New York: Crown Business.
- Benkler, Y. 2013. Practical Anarchism: Peer Mutualism, Market Power, and the Fallible State. *Politics & Society* 41: 215-251.
- Chandler, A. D. 1977. The Visible Hand: The Managerial Revolution in American Business. Cambridge, MA: Belknap Press.
- Coase, R. 1937. The Nature of the Firm. *Economica* 4: 386-405.
- Davis, G. F. 2005. New Directions in Corporate Governance. *Annual Review of Sociology* 31: 143-162.
- Davis, G. F. 2009. The Rise and Fall of Finance and the End of the Society of Organizations. *Academy of Management Perspectives* 23(3): 21-44.
- Davis, G. F. 2016. The Vanishing American Corporation: Navigating the Hazards of a New Economy. Oakland: Berrett-Koehler.
- Drucker, P. F. 1949. Is Management Legitimate? *Harper's Magazine*, p. 76.

- Hall, P. A., & Soskice, D. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.
- Kogut, B. (ed.) 2012. *The Small Worlds of Corporate Governance*. Cambridge, MA: MIT Press.
- O'Mahony, S. & Ferraro, F. 2007. The Emergence of Governance in an Open-Source Community. *Academy of Management Journal* 50: 1079-1106.
- Piore, M. J. & Sabel, C. F. 1984. *The Second Industrial Divide: Possibilities for Prosperity*. New York: Basic.
- Roe, M. J. 1994. *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance*. Princeton: Princeton University Press.
- Rothschild, J. 2016. The Logic of a Co-operative Economy and Democracy 2.0: Recovering the Possibilities for Autonomy, Creativity, Solidarity, and Common Purpose. *Sociological Quarterly* 57: 7-35.
- Rothschild, J. & Whitt, J.A. 1986. *The Cooperative Workplace: Potentials and Dilemmas of Organizational Democracy and Participation*. New York: Cambridge University Press.
- Schneiberg, M., King, M. & Smith, T. 2008. Social Movements and Organizational Form: Cooperative Alternatives to Corporations in the American Insurance, Dairy, and Grain Industries. *American Sociological Review* 73: 635-667.
- Schor, J. 2014. *Debating the Sharing Economy*. Boston: Great Transition Initiative.
- Scott, M. 2016. As Uber Stumbles, German Rivals Prosper. *New York Times*, January 4.
- Stout, L. 2012. *The Shareholder Value Myth*. San Francisco: Berrett-Koehler.

Useem, M. 1996. *Investor Capitalism: How Money Managers are Changing the Face of Corporate America*. New York: Basic.

Useem, M. 1998. Corporate Leadership in a Globalizing Equity Market. *Academy of Management Executive* 12(4): 43-59.

Williamson, O. E. 1985 *The Economic Institutions of Capitalism*. New York: Free Press.

**Gerald F. Davis** ([gfdavis@umich.edu](mailto:gfdavis@umich.edu)) is the Wilbur K. Pierpont Collegiate Professor of Management at the University of Michigan's Ross School of Business and Professor of Sociology. He is the editor of *Administrative Science Quarterly* and director of the Interdisciplinary Committee on Organization Studies.