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THE FUTURE OF THE CORPORATION

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ABSTRACT

The articles featured in this Point-Counterpoint develop provocative and yet contrasting views on the role of corporations in contemporary society: the point by Colin Mayer advocates a view of the corporation as a purpose-driven institution that can become a vehicle for economic and social prosperity. The counterpoint by Jerry Davis emphasizes the declining role of contemporary corporations, and argues for the need to develop both internal and external corporate democracy. Building on the dialogue between purpose and democracy, this article reflects on the future of the corporation within a society characterized by the pervasive presence of global risks. Four major challenges for corporate purpose and democracy are highlighted: changes in corporate business models, inequality and safety, institutional partnerships, and new forms of corporate social engagement.

Keywords: corporation, purpose, democracy, modernity, risk.

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INTRODUCTION

The current pandemic has cast a dark shadow over the future of the corporation and its relationships with key stakeholders. The articles featured in this Point-Counterpoint develop provocative and yet contrasting views on the role of corporations in contemporary society: the point by Colin Mayer (Mayer, 2020) advocates a view of the corporation as a purpose-driven institution that can become a vehicle for economic and social prosperity. The counterpoint by Jerry Davis (Davis, 2020) emphasizes the declining role of contemporary corporations, and argues for the need to develop both internal and external corporate democracy.

PURPOSE

Mayer's point piece starts from a critique of the shareholder/stakeholder dichotomy and the related rationales for corporate existence. On the one hand, Friedman's doctrine has argued that corporations exist to maximize the benefits to their shareholders by pursuing profit and positive growth. On the other, stakeholder theorists have contended that they need to balance the interests of, and create value for, all their stakeholders, without whose support they would cease to exist. According to Mayer, this is a false dichotomy that should be overcome by shifting the analytical focus from the main beneficiaries of a corporation's activity to its commitment to its stated purpose: "... in considering the future of the corporation, we should start from a more fundamental question about why a business exists and is created, what it does and aspires to become, namely its purpose, and then consider the resulting changes to business practice, policy, education and research that are required to deliver it." In other words, purpose addresses fundamental ontological questions about a corporation's *raison d'être*, in so doing acts as a primary orientating device for corporate behavior and business practices.

Unlike a mission or vision statement, purpose is neither a simple description of what a business does nor an unrealistic vision of what it seeks to achieve. Instead, it is about identifying the types of problem a corporation is trying to solve and devising profitable solutions to these problems without causing damage to people or the planet. From this perspective, profit is not an end in itself: it is the by-product of a virtuous value chain that revolves around purpose, and a commitment to a corporate purpose creates reciprocal relationships of trust among a firm's various stakeholders. The trustworthiness of a business when it comes to upholding its purpose creates more engaged employees, more reliable suppliers, more supportive shareholders and communities,

and more loyal customers. This in turn gives rise to higher revenues, lower costs, and more profits. Mayer cites Novo Nordisk as an example of a purpose-driven corporation that has become successful by practicing, reflecting upon, and modifying its purpose over time.

Purpose addresses a void between market efficiency and regulatory effectiveness. It gives a corporation a direction while also acting as a self-regulatory mechanism. A focus on purpose redefines the corporation as a nexus of trustworthy relationships revolving around purpose, as opposed to a nexus of contractual arrangements emerging from the need to curb opportunism. Aligning profit with purpose, however, entails navigating critical tensions between shareholders and stakeholders, business and state, competition and regulation, and financial performance and social welfare. Addressing these tensions necessitates effort and radical reform. Mayer proposes a framework for developing purposeful businesses consisting of a set of policies in four pairs of areas: law and regulation, ownership and governance, measurement and performance, and finance and investments. This suggested framework configures a reformed view of capitalism that is centered around purpose and offers a more sustainable view of profit. Ultimately, in Mayer's view, purpose underpins the production of public goods – conceived as profitable solutions to the problems of people and planet –thereby supporting the enhancement of both economic and social prosperity.

DEMOCRACY

Davis' counterpoint is skeptical about the self-sufficiency of purpose. Instead, he is convinced that shareholder value guides corporate behavior, and that shareholder logic inherently corrupts purpose. The primacy of stakeholder value is enforced through governance mechanisms and institutional roles – boards of directors with financial expertise, financial auditors, investors, equity analysts, executive compensation systems, shareholder friendly corporate law, and so on – that emphasize the financial component of corporations and are designed to guide them toward maximizing shareholder value. The dynamics of growth, the imperative of satisfying venture capitalists and investors, and the pressures to find profitable uses for their assets inevitably drive corporations to behave corruptly.

For Davis, shareholder capitalism fuels corporate greed and induces corporations to pursue profit at the expense of public well-being. In contrast to the virtuous activities of pharmaceutical companies like Novo Nordisk, Davis provides compelling examples of corporations that have been responsible for generating major social plagues such as the opioid epidemic, obesity,

addictive products, surveillance by social media, and climate change. In addition, the gig economy has brought to the fore new forms of power and workplace surveillance that supplant traditional hierarchical control (Curchod et al., 2020; Karanovic et al., 2020; Zuboff, 2019). These include algorithmic forms of evaluation, the misuse of data and information, and intrusions into customer privacy. Under these circumstances, declaring a purpose – even a precise one – does not automatically lead to virtuous behavior. To paraphrase Argyris and Schon (1978), one could argue that purpose might merely provide an *espoused theory*, while shareholder primacy acts as a *theory-in-use* that informs actual corporate behavior. This begs the question of how we can ensure that corporations honor their purposes beyond a ceremonial conformity to what they have asserted.

Rather than purpose, according to Davis, building the corporation of the future will require democracy. He uses the term in a dual sense: a) an internal democracy that overcomes hierarchical control and promotes healthy work relationships; and b) an external democracy that regulates corporations through nationalization and state intervention. Consistently with his conceptualization, Davis suggests a dual approach toward building back better.

The first is from the bottom up, by making corporations more democratically accountable to their own members. Ultimately, it is employees who do the real work and are closer to the substance of the business; they tend to identify with their place of work, and are more sensitive to the reputational consequences of corporate conduct (including violations of purpose). In recent times, workers have been able to expose company malpractice through collective activism, whistleblowing, and the use of social media. A more effective way of establishing an internal democracy would be to institutionalize procedures that allow employees – and corporate stakeholders in general – to act on breaches of corporate purpose. This might include establishing worker representation at a board level (for example, by following long-standing examples in Scandinavia and Germany), devising ICT tools to promote daily democracy at the bottom, and developing academic research and teaching on workplace democracy.

The second approach to democratic reform is from above. Global crises expose corporate vulnerabilities and promote a sort of natural selection. In recent years, the U.S. stock market has become increasingly concentrated, largely identifiable with the S&P index, dominated by tech giants, and heavily influenced by large investors. The combination of unethical behavior and corporate failure in the face of crises demonstrates the necessity to revive and update existing government regulations and strengthen state intervention. Davis's suggested reforms include rethinking the regulatory toolkit by taking into account recent transformations of the corporate

landscape, undertaking a cautious reconsideration of government ownership in some industries, and creating indexes that reward adherence to purpose and the development of long-term time horizons.

THE CORPORATION OF THE FUTURE

An analysis of the future of the corporation requires a reflection on the changing nature of society's relationship with production and consumption. Ulrich Beck has argued that in advanced modernity, the social production of wealth is systematically accompanied by the social production of risks: "Unlike the factory-related or occupational hazards of the first half of the twentieth century, the risks of modernization can no longer be limited to certain localities or groups, but rather exhibit a tendency to globalization which spans production *and* reproduction as much as national borders, and in this sense brings into being *supra*-national and *non*-class specific *global hazards* with a new type of social and political dynamism" (Beck, 1992: 13, italics in the original). According to Beck (2012), today's major global risks are ecological, financial, military, terrorist, biochemical, and informational.

The current pandemic and the global financial crisis of 2008 are prominent illustrations of the dynamics of the 'risk society', and both follow a mechanism of contagion. The financial crisis arose from the widespread practice of turning risk into a commodity (for example, mortgage-backed securities). Fueled by corporate greed, junk loans were passed along a chain of intermediaries in the market place, bringing the financial world to a halt. Recovery often required nationalization and government bailouts. In a similar vein, the current pandemic is a reminder of the powerful transmission mechanisms by which local crisis hotspots rapidly become amplified at a global level. Faced with an unknown situation, governments have oscillated between libertarian and interventionist positions. Political leaders in different parts of the world have exercised the prerogative of democracy (where present) in different ways and with varying outcomes. In both crises, the causes of the disease and the mechanisms of contagion were elusive and largely invisible.

Crises expose the workings of the risk society. In an interconnected world, risk is produced locally and amplified globally; politics, and increasingly science, expand their rule into the private sphere; inequalities and anxiety increase; and some corporations and industry sectors thrive while others become totally dependent on government recovery packages. As Beck presciently put it: "What is at stake in the public dispute over the definition of risks is revealed here in an exemplary

fashion: not just health problems for mankind, but the social, economic and political consequences of these health effects – collapsing markets, devaluation of capital, bureaucratic checks on corporate decisions, the opening of new markets, mammoth costs, legal proceedings and loss of face. Averting and managing these can include a reorganization of power and authority. Risk society is a catastrophic society. In it the exceptional condition threatens to become the norm.” (Beck, 1992: 24)

To sum up, global risks are often elusive, based on a mechanism of contagion, and systemic in nature. These characteristics delineate two possible scenarios. On the one hand, the systemic interdependence of global risks and the actors involved in their production might generate denial (for example, climate change is not happening, or COVID-19 does not exist) and the avoidance of personal responsibility. On the other, global risks open up a moral and political space that can give rise to a civil culture of responsibility (Beck, 2012) and increase the engagement of key social actors (including corporations) in the solution of problems relating to people and the planet. These considerations highlight four major challenges for corporate purpose and democracy: changes in corporate business models; inequality and safety; institutional partnerships; and new forms of corporate social engagement.

Changes in corporate business models: Recent years have seen changes in corporate business models. As Mayer points out, as modern corporations extend beyond the boundaries of ownership, they become more elusive, more difficult to regulate, more embedded in the social context, and increasingly responsible towards broader audiences. Likewise, Davis remarks how radically different contemporary corporations are from 20th century blue chips. For example, new business models – such as those adopted by Netflix or Tik Tok – rely on a small number of employees, minimal physical assets, and the use of rented server spaces. Technological acceleration and an increasing reliance on financial tools have produced a business world in which the corporation ‘vanishes’ or becomes increasingly virtualized through proxies: online portals stand in for organizations; outsourcing practices minimize reliance on employees and tangible assets; electronic transactions replace money and face-to-face interactions with credit cards and web connections; remote working via digital platforms blurs work/life boundaries; stocks and derivatives convert material wealth into abstract capital; AI provides real-time readings of the business environment and reduces bounded rationality; and algorithms translate information into metrics that drive business decisions. These new modes of organizing will have important

consequences for the construction of trust-based relationships (purpose) and future forms of internal and external accountability (democracy).

Inequality and safety: Ulrich Beck (1992) has argued that while the traditional class society was driven by material needs, the risk society is driven by a need for safety. The recent global crises have exposed pervasive forms of anxiety that stem from both *inequality* and concerns for *safety*. For example, corporations reproduce inequalities through pay gaps, which affect not only global growth but also the everyday lives of local communities. In November 2020, for example, voters in San Francisco approved a new tax targeting big businesses whose CEOs earn far more than their average workers. Under the new law, any company that pays its top executive 100 times more than its average worker will pay a 0.1% surcharge on its annual business tax payments. If a CEO makes 200 times more than the average employee, the surcharge increases to 0.2%, and 300 times triggers a 0.3% surcharge, and so on. As regards safety, the corporation of the future will take a dual role as both risk producer and risk mitigator (Crane and Matten, 2020). For example, the recent COVID-19 crisis has made the household the center of both work and family life (Leonardi, 2020; George et al., 2020). Online retail and home entertainment (such as Amazon and Netflix) are currently prospering from their ability to satisfy immediate consumption needs and appease anxieties with minimal effort and an absence of risk, from the comfort of home. Digital platforms like Zoom have replaced offices, classrooms, and boardrooms and benefited from the trend for remote working. Corporations operating in the safety business, such as pharmaceutical companies and producers of medical devices, have taken a prominent role. This new landscape will arguably trigger new modes of industrial production, new problems in need of solution, and new demands for internal and external democracy. In a world characterized by ongoing risk and punctuated by global crises, inequality and safety will increasingly become a matter of concern for both corporate purpose and corporate democracy.

Institutional partnerships: The recent global crises have also revealed a stark contrast between the uncertainty they have generated and the bounded rationality of institutional decision makers. Crises spark public controversies (Patriotta et al., 2011) and politics around meaning (Slavich et al., 2020). In the absence of credible institutions that provide a frame of reference for human action and long-term plans, sense can collapse and generate cosmology episodes (Weick, 1993). Addressing global risk and the crises it brings about calls for concerted efforts from science,

politics and business. For example, political and scientific institutions such as the European Union, the Organization for Economic Co-operation and Development, national governments, central banks, the World Health Organization, the U.S. Food and Drug Administration, and the European Medicines Agency have coordinated their global efforts to respond to the recent COVID-19 crisis. Pharmaceutical companies have partnered with universities, government agencies and contract manufacturing organizations to develop a COVID-19 vaccine. Cross sector collaborations transcend the purpose of individual organizations. They leverage diverse expertise, perspectives and resources to jointly solve a societal problem and achieve a shared goal (Becker and Smith, 2018). Solving problems of people and the planet will increasingly require the development of partnerships between corporations and other social institutions, based on solidarity and the mutual support of public interests.

Giving back to society: Aligning corporate with social purpose is a necessary, but by no means sufficient, condition for healthy corporate activity. In a society characterized by the interplay of risk and inequality, tensions arise between the logic of growth and the distribution of wealth, and between the profit imperative and the need for safety. Today, the capitalization of trillion-dollar companies like Apple, Microsoft, Alphabet, and Amazon is equivalent to the GDP of some major states. According to 2019 World Bank data, in August 2020, Apple reached a market capitalization of \$2 trillion, surpassing the GDP of countries such as Italy, Brazil, Canada, and Russia. Despite often benefiting from corporate tax cuts, large multinationals frequently shift their profits through low tax jurisdictions while showing indifference toward local communities. The gentrification of the Bay Area – in which the most prominent tech giants operate – is a prominent example of the production of demographic risk accompanying the production of wealth. Spiralling national debts are at odds with corporate profits that are often boosted by tax avoidance. The challenges posed by the risk society demand not only cross-sector partnerships, but also governments that are well resourced for addressing ongoing crises. The pursuit of purpose and the achievement of corporate democracy in this context require corporations to align their business objectives with increased political awareness and social engagement (Lawton et al., 2020).

The two articles prompt us to consider both the ontological question of why corporations exist (Mayer) and the ethical question of how corporations interact with the social milieu in which they are embedded (Davis). Understanding the future of the corporation requires combining the two sides of the equation. Corporations do not exist to do good to society (a typical claim in

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corporate mission statements). Rather, they pursue purposes that must be compatible with, and respectful of, social expectations. However, aligning the logic of purpose with the logic of profit is problematic, and requires a broader understanding of the political and institutional dynamics underpinning corporate activity. The two articles in this Point-Counterpoint suggest that the pursuit of purpose cannot be based solely on unilateral, conscious corporate declarations; it has to be accompanied by public policies that promote accountability toward purpose. The authors' suggested areas for reform provide a valuable platform for rethinking the corporation of the future from different perspectives. It is our hope that this Point-Counterpoint will stimulate further debate and prompt business and political leaders to build better forms of capitalism populated by more purposeful corporations.

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