Part II

Beyond ‘Control and Alignment’: Non-economic Objectives and Relational Governance

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Economy, Society, and Worker Representation in Corporate Governance

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This chapter represents an attempt to rethink the role of worker representation in corporate governance. It focuses on the United States and developments in other countries are considered only as they enter into American debates. This focus is dictated by my own background and knowledge. I believe that much of what I have to say is of at least some relevance to other countries, especially those at comparable levels of economic development. But I am not really in a position to work out the relationship between developments in the United States and those abroad.

The chapter is written against the background of the rise in the last twenty-five years of shareholder value as the normative standard against which corporate governance is judged, and the reaction to that standard, whose dimensions are still unclear, which has emerged in the wake of the recession that began at the end of the 1990s and the corporate accounting scandals that emerged shortly thereafter. The reaction has at least three distinct, although interrelated, elements. First is a concern with the relationship between existing governance arrangements and true shareholder value and/or the relationship between the latter and economic efficiency. The second is nostalgia for the older institutions that were replaced by the governance arrangements instituted in the name of economic efficiency and shareholder value. In the United States, these older institutions grew out of the reforms of the New Deal in the 1930s; they are associated with the welfare state and specifically designed to adjust or constrain governance structures in a way that aligns them with worker welfare. Third, there has been a movement in reaction to both the older model and the new normative standard to replace shareholder with stakeholder value. In addition to the shareholders, the principal stakeholders are workers and the local community.

The argument of the chapter is developed in four sections. The first section defines the underlying problem that worker voice in corporate governance tries to address as a clash between two realms of activity and two opposing frameworks for thinking about evaluating behavior within them. One is an economic realm that we have learned from economic theory to think about in terms of autonomous individuals interacting in a competitive market. The second is a social realm, understood in terms of the collective nature of human endeavor and exemplified by our capacity to generate language and our need to understand and realize ourselves within a linguistic community. The clash is captured by the framework of analysis developed by Karl Polanyi in *The Great Transformation* (1944). That framework is particularly powerful in capturing the tensions surrounding the issue of labor market flexibility which has come to the fore in the policy debates of the last several decades, and both the shareholder value model and the stakeholder model which has been proposed as an alternative can be understood in its terms.

Polanyi's framework is not, however, helpful in understanding the governance structures that the shareholder model replaced. These grew out of a very different understanding of the nature of industrial society. The second section of the chapter tries to lay out, by contrast with Polanyi, what that alternative model was and the perceptions of the dilemmas of economic efficiency upon which it was based. The third section of the chapter explains how this alterative understanding, and the perceptions which rendered it plausible, were progressively undermined by economic events in the course of the last thirty years, rendering Polanyi's framing of the problem increasingly plausible and bringing the debate between shareholder value and the stakeholder models to the fore.

In the fourth section, however, we argue that, as a complete understanding of the changes that undermined the old institutional structures and as a guide to what might constitute an alternative, Polanyi's framework is also limited. The limits lie in the way it treats the social structure as a black box, a passive restraint upon the dynamic forces inherent in the economy. As a result, it leads us to ignore the way in which the structure of society, even more perhaps than the structure of the economy, has evolved in the course of the last thirty years and the way in which that evolution, quite separately from the evolution of the economy, has undermined the old institutions of corporate governance.

We conclude in the last section, however, that, once one begins to recognize the independent role of social forces in the evolution of institutional structures and the way in which they influence their operation, the economist's case for the shareholder value model also begins to degenerate. The argument leads to a fairly conclusive case for separating issues of corporate governance from those of worker welfare and for pursuing the latter through a distinct and more direct set of public policies. But, on the issue of corporate governance itself, the implications are less conclusive: They point to the need to rethink these issues, but leave no clear indication as to where that process might lead.

Some Conceptual Issues

The debate about corporate governance has come to be framed by the shareholder value model, and hence it is from this model that any argument must proceed. But this point of departure presents problems. The shareholder value model rests on a highly articulated theory of individual behavior within a competitive market economy. Neither the stakeholder model nor the models that underlay the New Deal welfare state reforms are as fully developed. And once one accepts the shareholder value model as a point of departure, it is difficult to formulate the problem in a way that these alternatives have any legitimate place. A starting point, however, is to pose as a central problem of economic organization the relationship between the economic and social realms of human activity. This is itself a difficult problem to formulate, let alone resolve. The very idea of there being two distinct realms of activity is itself a strong assumption. But there is a long tradition in Western sociological thought which argues that the separation of realms is critical to the process of economic development, especially in a capitalist economy. The argument is developed with particular force by Max Weber (1958), but is generally carried forward in contemporary economic sociology (Sahlins 1976; Bell 1976). The two realms are distinguished by the principles that govern behavior within them and by normative standards by which behavior and the outcomes it produces are different as well; principles of rationality and efficiency in the economic realm but affective, charismatic, and/or dynastic principles in the social realm. The standards by which one judges behavior in the two realms may not only be different, they may also be incommensurate, raising the question of how one even talks about the conflicts between them.

In modern industrial society, economic behavior is invariably understood and analyzed in terms of conventional economy theory. The shareholder value model is rooted in that theory. The principal characteristic of the theory is that it is individualistic. Its analytical and normative starting points are the values which the individual holds internally and can think about and compare in his or her own head. It generally assumes that individuals do this in isolation from each other, but that is not integral to the theory. What is integral is that our relationships with other people are introduced into this personal and individualistic calculus. To care about and relate to other people is for them to enter into our own personal calculus, either because we 'feel for them' (their utility enters into our utility function) or because they provide us with resources or information, which we then use in the pursuit of our own welfare. This way of thinking almost invariably leads one to resolve problems of social organization by increasing competition and hence the ability of prices to effectively guide individual decisions toward economically efficient outcomes, or through adjustment in the distribution of income, after these decisions have played themselves out, through taxes and transfers. Adjustments in governance structures that give workers a voice in the operation of the enterprise as separate and distinct from the 'voice' they achieve by the companies' attempts to minimize costs in the face of competitively determined wages are not compatible with this way of looking at the world (but see Freeman and Medoff 1984; Hirschman 1970).

There are, however, some things which cannot be thought about in this way. For me, the best examples are language and, by extension, personal identity. The neoclassical model wants to reduce language either to a means (people learn a language like they acquire an occupation) or an end (people are so attached to their language that they are willing to sacrifice higher incomes in order to remain in their language community). But when language is associated with identity, it takes on a different meaning. It becomes fundamental to our condition as human beings, a sine qua non for everything else. Without language we would be unable to be what we are. This makes language a social good that is incommensurate with individualistic calculations. It precedes our individuality. In the shareholder value model, you would not be able to correct the calculations or their outcomes through taxes or transfers. Instead, you would have to make the shareholder value calculation first and think outside that framework for what it means for the social values represented by language. The one social scientist who has come closest to formulating the problem in these terms is Karl Polanyi, and this formulation, as developed in *The Great Transformation*, provides a starting point for our discussion here (Polanyi 1944).

Polanyi sees the principal problem in contemporary economic organization as the clash between the competitive market and the social nature of human beings. Because we are social creatures, meaningful life is possible only in a community—a set of stable relations with others—and communities are in turn rooted in a particular historical time and, above all, *place*. An efficient competitive market, however, can function only by treating both labor and land as commodities which are bought and sold freely in the marketplace and respond readily to variations in demand and supply as reflected in prices and wages. This ability of labor and land to respond to the exigencies of the market is captured by the term 'flexibility' around which the current debate about labor policy revolves. There is, Polanyi's argument suggests, an inherent conflict between the flexibility required by an efficient economy and the stability needed for meaningful human life. An economy governed by the market is thus completely 'unnatural': it is in conflict with the communal nature of humankind. The movement toward a market economy is, Polanyi argues, the artificial product of efforts beginning in the late eighteenth century to reorganize society in conformity with the economist's model. Modern labor market regulation from its inception in the nineteenth century is understood by Polanyi as an attempt to reassert, in the face of this endeavor, the value of community by limiting the commoditization of land and labor (and hence their flexibility).

Contemporary versions of the stakeholder model are readily understood in precisely these terms—a less rigid, more dynamic way of introducing the value of community into economic decisions. The shareholders' interest is in economic efficiency signaled by the competitive market—the competitive market for the firm's inputs and outputs as reflected in the competitive market for its shares. The other stakeholders, representing the workers and the local community, temper the pursuit of economic efficiency with the recognition of the cost of excessive turnover and mobility (Jacoby 1985; Weiss 2003; Clarkson 1998).

Other Interpretations of Industrial Society

Polanyi's formulation of the relationship between the social and the economic realms, however, is better at capturing the stakeholder model than it is the model underlying the welfare states. It is a convenient starting point, and it is helpful in sharpening the analytical issues, but the other models of corporate governance are not readily understandable in these terms.

Until relatively recently, at least, Polanyi was alone among contemporary commentators in seeing this conflict as central to the evolution of modern society. Others saw industrial society as moving progressively away from competitive markets governed by variations in prices toward large, bureaucratic enterprises that were stable, enduring and well-defined, and whose behavior was governed by the decisions of technocratic managers. Gains by adjustments to market prices on the margin in the technocratic decisions were swamped by the gains to be had by organizing the technology and the marketplace. This view was most forcefully expressed by Karl Marx, but one can find different versions in a diverse group of social scientists, from Max Weber and Joseph Schumpeter (1950) to John Kenneth Galbraith (1972) and Oliver Williamson (Williamson and Winter 1993), but its most forceful recent exponent is Alfred Chandler (1977). In many of these writers, but especially in Chandler, this view becomes linked to the technological trajectory of mass production. In a certain sense, therefore, the current dilemmas of corporate governance and worker welfare emerge in the transition from a world in which Polanyi's model was not particularly plausible to one in which it seems increasingly relevant. So we can begin to think through the issues here by asking how the old industrial economy managed to escape from Polanyi's dilemma and why that dilemma seems to have come back to the fore.

My own understanding of the answers to these questions draws heavily upon the argument that I developed with Charles Sabel in *Second Industrial Divide* (Piore and Sabel 1984). It rests on the nature of mass production as an approach to industrial development. The essential idea of mass production, especially in the context of Polanyi's formulation of the problem, is that economic efficiency comes to be highly dependent on stability. It does so because technological progress in mass production is about the development of highly specialized resources dedicated to the production of a single make and model of a particular good. The resources are so specialized that they cannot switch to alternative uses, and hence they become fixed investments. The efficiency of producing in this way then comes to depend on the ability to keep these specialized resources fully employed. Any variability in the demand for the final product, in the supply of inputs to the production process, or in the regularity of work becomes a threat to economic efficiency. In other words, the technology of mass production makes economic efficiency dependent on the very rigidities which Polanyi (and the neoclassical economists) saw as inimical to a competitive market. Conversely, the variability of the parameters of economic decisions in a market economy becomes inimical to economic efficiency. And it is precisely because of this conflict with a competitive market that the economy is reorganized progressively around large bureaucratic enterprises as mass production develops and spreads. The rigidity that Polanyi attributed to society comes to reside under mass production in the technology. The fact that it does so, and the increasing importance of stability to efficiency that this entails, eliminates the conflict between the society and the economy which Polanyi foresaw. Of course, not any social structure, not any community, is consistent with economic efficiency. Pre-industrial communities need to be reorganized around the structures of mass production, but once that reorganization has taken place and the community has re-emerged in a new form, the stable commitments which it entails are actually a boon to the production process. Given this construction, it is easy to see how labor rights would become linked to the mass production enterprise.

The old regime of corporate governance was essentially the regime of managerial capitalism which grew up around mass production. In the context of the debate about shareholder value, the key feature was the way in which management was insulated from the pressures of the capital market by a cushion of retained earnings. Managerial careers were bureaucratic (even ecclesiastical). But, because the technological trajectory was so clear, the role of the manager was essentially a technical one and the requisite skills could be acquired and perfected through internal career trajectories.

Strong trade unions developed in the United States only after these corporate organizations with their highly articulated structures and procedures were already in place. The unions emerged out of a spontaneous social movement, and there was a period of experimentation with a variety of participatory schemes when the movement was at its peak. In this period, the trade unions' goals were arguably in conflict with mass production and economic efficiency. But as the system was consolidated and institutionalized in the immediate postwar period, unions came to participate in corporate governance in a highly restrictive way (Sahlins 1976). A sharp distinction was made in law and in practice between labor and management. The canon of US labor relations was: 'management acts, the union reacts'. Collective bargaining let the union place constraints upon managerial action, but it did not permit the unions to propose alternatives or even to discuss and evaluate alternatives proposed by others. Unions were relegated to an essentially passive role, which preserved the essential features of managerial capitalism.

The US welfare state grew up around these mass production enterprises as well. Public benefits were made largely conditional on employment and financed through payroll taxes. The public system was supplemented by private pensions, medical insurance, unemployment benefits, and so on, each negotiated on a company-by-company basis by unions in collective bargaining, and thus predicated on the stability and durability of the corporate entity.

In sum, then, the dilemma between the society and the economy which Polanyi foresaw was resolved through mass production, in two ways. First, the requirements of an efficient production process involved the kind of stability which was necessary to preserve society. In this sense, one could say that the conflict between the economy and society was reproduced within the economy itself in terms of a conflict between the flexibility of the marketplace and exchange and the stability of production; and under mass production the gains to be had from accommodating the requirements of the production process outweighed those to be had from accommodating the market. But the second way in which the conflict was reduced was that the social system in the workplace was adjusted to the requirements of production so that the two systems essentially came to coincide.[1]

The End of the Old Regime

The old regime of mass production, managerial capitalism and collective bargaining unraveled in the course of the last three decades of the twentieth century, and it is in that context that the debates about corporate governance and worker welfare must be understood. But the challenge emerged in a series of stages, and our understanding of the institutions which might effectively address it has shifted as those stages have unfolded. The stages roughly correspond to the different decades of which the periods were composed.

In the 1970s, the principal challenge came from the instability of the business environment. The instability appeared to be associated with a series of discrete events: the failure of the Russian wheat harvests and its impact on the world market for basic foodstuffs; the Arab oil boycott and then other destabilizing events in the Middle East; the shift from a regime of fixed to flexible exchange rates; macroeconomic mismanagement leading to stagflation; and ending in very high inflation and unprecedented interest rates, and so on (McCracken 1984). One might believe that, once these events had played themselves out, the economy would stabilize once more and the basic institutional structures could be preserved. In Europe, at the beginning of the decade, there was also considerable labor unrest which was interpreted as a reaction to the alienation of work under mass production, a long-term and permanent trend which stimulated a series of innovations in work organization (Boltanski and Chiapello 1999). But social unrest in the United States in this period took a form that was associated with racial unrest and protests against the war in Vietnam, provocations which had nothing to do with the organization of work and which grew out of conditions that would be corrected with time, eliminating the threat that they posed to the efficiency of mass production as an approach to industrial development.

As the instability continued into the 1980s, however, it was increasingly more difficult to dismiss it as the product of temporary aberrations. Moreover, in the 1980s it was compounded by other difficulties. Structural crises in several industries threatened the viability of major companies in steel, coal, and automobiles. The heavy welfare burdens attached to the enterprises in the form of private pensions, unemployment insurance, and medical care, moreover, complicated the adjustment process and led to perverse effects. The less efficient companies had the oldest labor forces, which imposed the greatest burdens in terms of pensions and medical care, but the desire to preserve these benefits led both government and unions to resist rationalizing the productive structure; and instead of closing the least efficient enterprises and preserving the most modern and up-to-date facilities, they prolonged the adjustment process through wage concessions which kept the older enterprises in business (Hoerr 1988).

More important in terms of the debate about corporate governance was the challenge to US manufacturing which came from competitors abroad, principally from Germany and Japan. In retrospect, much of this competitive challenge appears to reflect an overvaluation of the dollar, which was corrected in the course of the decade. But at the time, the competitive problems of American business were widely attributed to the superior quality of foreign products and to the greater variety of different versions of the same product which foreigners were able to produce efficiently. The ability of Germany and Japan to compete along these dimensions was thought to reflect, in turn, differences in the organization of production, and American management moved to adapt new practices modeled on these foreign systems (Dertouzos, Lester, and Solow 1989; Smith and Alexander 1999). These efforts had several effects. First, they clashed with the social system of the workplace which had grown up around older forms of mass production and hence encountered strong resistance from trade unions. That resistance increased opposition on the part of management to trade unions and to the legal arrangements which secured their place in corporate governance. But second, it led to a search for models of the workers' place in corporate governance which were more consonant with their new place in the productive process. On the whole, these involved much closer collaboration between labor and management, a reduction in hierarchy and greater horizontal communication, and an elimination of the extreme division between conception and execution. In Germany and Japan, these seemed to involve a more active participation of the workers through collective organization in areas which in the United

States had previously been reserved for management. In Germany this took the form of works councils; in Japan, of company unions. Non-union US companies were freer to move in this direction and provided the most influential domestic models for the new institutions forms (Kochan, Katz, and McKersie 1986; Jacoby 1985). But there was also some movement in this direction within the framework of collective bargaining, and this had the flavor of the stakeholder value model. Workers and their representatives became involved in management decisions of a kind and at a level from which, under the New Deal system of collective bargaining, they had been excluded. The most prominent and far-reaching of these new arrangements was the Saturn Company created within General Motors in close collaboration with the United Automobile Workers union. There were also efforts at a form of worker ownership in which the labor force through its unions acquired stock in the company and obtained seats on the boards of directors. Such arrangements were particularly prominent in the airline industry, where they were actually as much of a response to the structural crisis in the industry as to the new forms of production (Rubinstein and Kochan 2001; Gittell 2003).

In terms of the Polanyi framework and the conflict between the social and the economic realms which it highlights, these arrangements reflected a view of the relationship between the economy and society that was very similar to that which underlay mass production. Production was still embedded in social arrangements and the importance of those arrangements to efficiency outweighed the importance of accommodations to the market, but the social arrangements in the new production systems were different from those under mass production, and different governance structures were required to effect them.

This was not of course the only, or even the predominant, response to the pressures of the 1980s. It was in this period that the market model rose to dominance in managerial thinking and business practices, leading to the era of hostile takeovers, leveraged buyouts, and a shift in managerial compensation, especially for top managers, toward incentive-based systems, including increasingly extensive stock options. It led as well to an opposition to trade unions which was rooted in both ideology and in the competitive pressure which management was under and which was completely separate from any reluctance the unions might have felt toward accepting the new production techniques.

Other themes in the 1980s were increasing globalization and the new information technologies. The latter facilitated the flexibility of the production process and had an important impact on both quality and product variety. Globalization was reflected in the structural crisis of steel and automobiles and in the competitive pressures emanating from Germany and Japan. These forces became even more prominent and took a different role in the 1990s, which proved even more threatening to models of corporate governance in which workers played a prominent role.

In the 1990s, the focus shifted from the production process to the generation of new products, and new technologies, particularly in information, communication, and biology, came to the fore. This had two effects upon thinking about corporate governance and its relation to worker welfare and community. The first effect of these new technologies was the inter-penetration of previously separate and distinct industries. The most prominent examples are in information and communication technologies, where firms like IBM, Kodak, Xerox, and AT&T, which had previously operated in completely separate domains, came into direct competition with each other and with other new firms in telecommunications and software. In the process, the focus of the company became less obvious; whereas before, the domain in which the company operated had hardly seemed to require a decision, it now was open to alternative interpretations, and shifted radically depending upon who exactly was directing the enterprise. As the focus of the company shifted, the linkage between the company and any particular set of occupational skills or a production community was broken. At the same time, occupational and skill sets became more open and diffuse. Production—now more the generation of new products than the reproduction of products through mass production—was still dependant on close collaboration among a group of workers in a kind of work community, but the particular types of skills, and hence the members of that community, were no longer stable or predictable. At the same time, there has been a tendency for that part of production which remained relatively stable and routine to be moved abroad, and hence to become increasingly irrelevant to governance arrangements in the United States. Finally, there was a growing importance of new firms and the processes through which they were created and the structures that evolved as they grew.

One can argue that these arrangements have a strong social component which competitive economic theory fails to comprehend. We return to this point below. But it is no longer obvious that the community at stake here is coincident with the borders of the firm or that it is represented in any meaningful sense by the workforce of the firm at any moment of time. The new models of worker participation in management which were developed in the 1980s were clearly and decisively rejected in the 1990s. Symptomatic of this change was the decision of General Motors and the United Automobile Workers *not* to expand Saturn or extend the innovations in labor relations there to the rest of the company (Rubinstein and Kochan 2001).

A Model of Society

But the notion of what the economy should look like was only one part of the model upon which the institutions coming out of the 1930s were built, and the factors leading to its demise are only one of the sets of forces which must be taken into account in constructing a viable replacement. The postwar institutional structures also reflected an implicit model of the structure of society. In this, the vision was not so much different from Polanyi, but it was definitely more elaborate. For Polanyi, the structure of society was a black box: Its essential characteristic in his construction was its stability or its need for stability, but he never went beyond that to discuss the form and substance of the social structure. The social model underlying the New Deal reforms had a definite form (Piore 2003). It envisaged a radical separation between economy and society: each operating according to its own values and each with its characteristic structures and institutions. If the dominant institution in the economy was the corporate enterprise, the dominant institution in the society was the family. The family, like the enterprise, was stable, enduring, and well-defined. It was also headed by a single, male wage earner—the family breadwinner. The breadwinner represented the family in the economy. Given this construction, all conflicts between the economy and the society could be resolved by adjustments in the wage of the male breadwinner and the terms and conditions of his employment in the enterprise. This is a construction very close to that of economic theory in which adjustments in the wage can compensate for any cost, monetary or non-monetary. But it is not exactly the same. Since the family existed outside the workplace, an adjustment in the wage might solve most of its problems. But the workplace itself was also a social environment, one in which the worker spent most of his day, and it was not obvious that wage adjustments alone could compensate for problems encountered there. Thus, the bargain in the workplace had to take explicit account of what in American labor law are termed *other* terms and conditions of employment.

The final piece of this construction was the trade union. The union became the representative of the workers and, once it did so, any conflict between the social and economic realms was resolved by negotiations between the union and the enterprise.

This construction was of course a kind of ideal type. There were a variety of other institutions in each realm of activity as well as family enterprises in which the two realms were not sharply distinguished. In many families women and children worked as well as the male head. But these complications were thought to be exceptional, vestiges of an earlier era that were destined to disappear as the modern industrial economy matured, and with rising incomes women withdrew into the household and children to school. The secondary sector and the informal economy which we tend now to view either as a symptom of the incomplete nature of the efforts to impose a structure on the labor market or a perverse reaction to the efforts were not unanticipated at the time.

The collapse of the trade union movement effectively spelled the end of this construction of the relation between the economic and social realms. In two decades, the percentage of the private-sector labor force represented by trade unions fell from almost a fourth of the labor force to under a tenth. But the collapse of the postwar model reflected as much changes in the organization of American society as it did the collapse of the union movement or the changes in the organization of the economy which we have just reviewed. Chief among these social changes is the steady rise of female labor force participation over the postwar period, the increasing commitment of women to work as a career, and the growing importance of their earnings as a component of family income. The increase in female labor force participation has been accompanied by a rise in the divorce rate, increasing numbers of children born out of wedlock, and an increase in female-headed households. At the same time, a number of other family members have moved out of the family to form their own households, a movement facilitated by the growing importance of the welfare state that provides income independent of the labor market. The aged are the most prominent of this group, but disabled people and unmarried mothers constitute other important categories. These developments have marked the end of the family as a stable, enduring, and well-defined social unit, in much the same way that changes in the economic climate have undermined these characteristics of the corporation as an economic unit.

An important body of social science commentary in recent years has viewed the social changes as leading to a kind of individualism which one might think of as the social complement to the individualism of economic theory (Putnam 2000; Baron, Field, and Schuller 2000; McLean, Schultz, and Steger 2002). But, at least in terms of the social forces important in the labor market and the economy, what seems to be happening is very different. With the blurring of the boundaries of the enterprise and of jobs and occupations, economic identities have become increasingly weak and lost their power as a fulcrum of social mobilization. But social identities which originated outside the economy—identities associated with race, sex, ethnicity, age, physical disability, sexual orientation, and the like—have become stronger, serving as the major axis of social mobilization in their place. As the social and the economic realms have become increasingly blurred, and economic identities increasingly ambiguous, social identities have invaded the economic. The focus of these newly emergent groups is not confined to the economy, but workplace issues are one of its purviews. Identity-based organizations have emerged in almost every professional association and in a number of major corporate enterprises. Identity-based social movements are also increasingly important at the local level, where they are beginning to generate significant economic regulations as well (Fine 2003). We have been studying the role of these identity groups in a series of studies at MIT: They seem to serve a variety of purposes in the eyes of their members. But, among these, they operate as networks of contacts for facilitating movement in the labor market, and they are used in this way not only by members looking for jobs but also by employers looking for workers. Adherence to them thus reflects in part (although it is hard to say how much relative to other motives) the weakened attachment to particular enterprises and well-defined occupations in career mobility. These groups and social mobilization around their concerns have been the driving force in a new system of labor market regulation built around employment rights generated by federal and local laws, court decisions, and administrative regulation.

The New System and the Old

In the United States, this emergent regime of employment rights sheds an ironic new light on the system of collective bargaining, which it replaced. The attack on the old collective bargaining system focused on its lack of flexibility, but in point of fact, through collective bargaining, the rules of the workplace could be tailored to the peculiarities of each employment situation and changed through negotiation in response to radical changes in the environment in which the company operated. The new system involves employment rights which are universal in character and can be adjusted only through a cumbersome legal or bureaucratic process.

A major difference between the new employment rights system and the old collective bargaining system is the disarticulation between the economic and the social structures. In a way, therefore, Polanyi's dilemma re-emerges. The new identity groups make demands on the economy and on particular economic institutions but, because their organization is orthogonal to the structure of the economy, there are no inherent mechanisms for reconciling the demands of particular groups with the needs of the economy or the totality of demands with the economic resources required to meet them. The new groups are active both within the enterprise and outside it. In the enterprise, their demands take a variety of forms, some of which are basically symbolic with political overtones. African-American groups have, for example, been active in pressing major corporations to boycott South Carolina because of its aggressive display on the state flag of a Confederate symbol associated with slavery and white supremacy; gay and lesbian groups similarly placed pressure upon companies to boycott Colorado because of a statewide referendum banning local legislation protecting against discrimination on the basis of sexual orientation. But other demands these groups make at the enterprise level involve economic resources: paid family leave, day care, facilities for handicapped workers, or domestic partner benefits. When attached to the enterprise, these benefits introduce the same distortions in the competitive position of the enterprise and their ability to adjust efficiently to the economy that collectively bargained benefits introduced under the old system. But because the demands are made piecemeal and each case is relatively trivial (although in the aggregate their cost may be substantial) the impact on the economic viability of the enterprise is not as meaningful a constraint as it was in collective bargaining, where contract negotiations constituted a moment when the overall balance was periodically redrawn.

The major impact of these groups has not, however, been at the enterprise level but rather through political mobilization, where it has taken the form of laws, administrative regulation, or court orders. The problem of overburdening the system with multiple and conflicting demands presents itself as a problem of political governance, not corporate governance.

The political demands are nonetheless having a major impact on managerial procedures and structures. Employers trying to manage an environment where they are subject to multiple, often ambiguous, regulations from overlapping jurisdictions have shaped a response through the human resource management movement (HRM) (Dobbin and Sutton 1998). Two aspects of that response are of note. One is the spread of explicit personnel codes—essentially a detailed employment contract. These codes enable the employer to prove that its treatment of employees follows general and impersonal rules that thus become a defense against charges of employment discrimination and harassment against particular social groups. They also constitute a defense against breach of contract suits which the courts have, in a reversal of historic practice, been increasingly willing to entertain. A second response has been to create internal grievance procedures ending in arbitration to adjudicate claims by employers arising out of the new employment law and the internal personnel codes. The arbitration process, once of dubious legality, has recently been sanctioned by the courts (Supreme Court 2001; Stone 1996). Together these HRM practices introduce many of the inflexibilities of the old collective bargaining system but, again, without the accompanying contract negotiations which provided an escape valve, a way of circumventing or eliminating the rigidities when they became too burdensome.

While the emergence of these groups seems to regenerate the Polanyi problem with respect to labor, it should be noted that contemporary developments undermine his point about the market for land. In the United States, at least, many of these groups are ethnic minorities; they grow out of the immigration process. They create communities and organizations that span geographical barriers. The ethnic identities associated with these groups do have certain geographical roots. And to some extent those roots are embodied in institutions which govern the economy; an example would be the Philippine Nurses Association which negotiates contracts for immigrant workers with US hospitals. But the bi-national (or multinational) character of these communities means that disruptions in any particular location do not necessarily threaten the community as a whole. In the United States, moreover, the importance of particular geographical origins tends to decline as the immigrants assimilate, not necessarily into a broader mass culture as was once assumed, but at least into broader identities no longer directly rooted in a particular place, such as for Asians or Latinos. Finally, Polanyi's assertion has been further undermined by developments in information and communication technologies that create the possibility of so-called virtual communities; indeed, the web and the Internet make his assertions about the relationship between place and community seem quaint and anachronistic.

Social Restraints on the Economy in the Aftermath of the 1990s

A very different set of concerns has begun to emerge as we review the experience under the shareholder value models of corporate governance in the 1990s. Attention in the popular press has focused upon the way in which accounting practices have obscured the financial condition of the enterprise and hence make it difficult (or impossible) for shareholders to make the judgments which the model presumes will force the enterprise towards efficiency. But a recent study of the CEO selection process by Rakesh Khurana (2002) raises a different and potentially more serious problem. In the 1980s and 1990s, as the managerial model of the enterprise was abandoned and the shareholder value model came to predominance, control over the selection of CEOs shifted from the existing managerial hierarchy to the corporate board of directors. As it did so, the criteria in the selection of the CEO shifted as well. The practice of the promotion of internal candidates was replaced by the recruitment of executives from outside the enterprise, even from outside the industry, and the choice among these external candidates, Khurana argues, became dominated by a single selection criterion: the ability of the candidate to provide *charismatic* leadership. In addition, the pool of candidates from which these presumed charismatic candidates were drawn became extremely narrow. Both the criterion for selection and the pool were the product, he shows, of the social relations which developed among a small and relatively isolated group of people from which the boards of the large companies involved are generally constituted. The conflict which Polanyi identifies between social relations and economic efficiency in the large thus emerges even in the narrow confines of the managerial elite and even in the period when the competitive pressures associated with the shift toward a shareholder orientation are most acute.

Khurana is an economic sociologist and extremely sensitive to the social dimensions of economic activity. But the solutions he proposes to the problem of CEO selection are basically economic solutions designed to push the board through competitive pressures to break out of their narrow social circle and the restraints it places on their ideas of viable action. One might imagine, however, a set of social solutions to the problem; the stakeholders model could be reinterpreted in this light. The addition of worker representatives to the board, or representative of the local community, might break the social cohesion of the clique from which the board is drawn and open a debate about a different candidate pool and different criteria of selection. In the current environment, the one factor pushing the board is this direction is the legal requirement to find women and minorities to add to their candidate lists.

But the basic problem with Khurana's analysis is that it offers no way of judging whether this type of solution would really work. He identifies the role of cohesive social groups but not the underlying process through which they emerge. We therefore cannot say whether new representatives to the board drawn from a different arena would act independently or would instead be drawn into the existing 'corporate executive board' culture. Nor does Khurana examine the way in which social structure and cohesion may themselves contribute to economic efficiency in management just as we have seen that they do (or did) in production. One can imagine that the standards of the corporate elite inhibited even greater abuse in the era of the 1990s than actually took place; or that the remedy for those abuses will depend less upon legal reforms than upon new social standards (perhaps a response to the reforms and the political climate which produces them) embodied in these groups.

Ultimately, one is led to conclude that our intellectual framework for thinking about these problems is too weak; or, rather, that that the conceptual framework of the competitive market model and rational choice decision-making is overdeveloped relative to our understandings of social problems. It is overdeveloped relative to a second set of issues, closely related but too complex to be treated in detail here: rational decision making assumes a sharp separation between ends and means; an ability to identify these ends and means; and a well-defined model which connects the latter to the former and enables us to 'solve' the rational choice problem. Where does all this come from; where do our ends come from; how do we distinguish ends from means; and above all, how do we come to understand the underlying causal relations between them? Our economic models, and the shareholder value model in particular, just assume all of this. But the missing pieces must be connected to social processes. Khurana's claim concerning the corporate boards' mistaken beliefs about the kind of CEO they should be searching for suggests that, in at least his particular case, the social group is the underlying source of the problem.

Such considerations lead one to wonder whether the demise of managerial capitalism reflects more than anything else a change in our belief systems. We thought in an earlier era that we knew how to manage business effectively. We have come to doubt these beliefs. But in place of a new set of substantive beliefs and conventions about the direction business should be taking, we have substituted a set of procedures based on the competitive market model.

To say this is not to resolve the relationship between society and the economy. The two may not be neatly separated as they were under the structure of mass production and the New Deal labor regime, or as economic theory would like to assume. But they do represent distinct sets of forces which must be reconciled for an effective, functioning socio-economic system. The one conclusion that emerges clearly from the experience of the last thirty years is that both social structures and economic structures have evolved in ways which make the old arrangements basically untenable. And whatever its limits, worker representation in a shareholder value model is unlikely to resolve the dilemmas that have emerged in this process.

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Notes

[1] Polanyi anticipated some of this in his discussion of Robert Owen's reforms in the nineteenth century, but it is an aspect of his argument which is not developed analytically.