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EDITORS' COMMENTS: WHY DO WE NEED A SPECIAL ISSUE ON NEW THEORETICAL PERSPECTIVES ON MARKET-BASED ECONOMIC SYSTEMS?

The purpose of these comments is to describe, in more detail, why a Special Topic Forum (STF) on New Theoretical Perspectives on Market-Based Economic Systems is necessary in *AMR*, as well as the kinds of theoretical questions we hope will be addressed in papers submitted to this special issue. These comments, and the call for papers they support, are based on the observation that management and organizational scholars have—with a few important exceptions (e.g., Agarwal & Holmes, in press; Howard-Grenville et al., 2017; Rangan, 2015, 2018; Tsui, Enderle, & Jiang, 2018)—excluded themselves from debates about economic performance and social progress. This is the case even though most productive activity in the economy takes place through organizations that are managed more or less effectively, and, thus, many of the issues underlying our understanding of economic performance and progress are likely to have important managerial and organizational dimensions (Card, Heining, & Kline, 2013; Howard-Grenville et al., 2017; McGahan, 2018).

Instead, questions about social justice, progress, economic prosperity, the future of market capitalism, and the like have been left mostly to philosophers (e.g., Sen, 1976, 1999) and economists (e.g., Arrow, 1950). Of course, some of this work has focused on the organizational and managerial dimensions of these questions (e.g., Williamson, 1985). But all too often these issues have not received the kind of attention they deserve.

Our view is that it is not possible to understand both the great strengths of market capitalism and its limitations—and, thus, its future—without a clear understanding of the organizations that populate our economy and society and how they are managed and led.

THE DOMINANCE OF MARKET-BASED ECONOMIC SYSTEMS

The market system's wide diffusion and adoption over the last 100 years are testimony to its effectiveness and allure (Radelet, 2015). Today, the control and direction of financial and other resources lie preponderantly with entrepreneurs, enterprises, and executives operating in a diverse array of organizations within markets. Market allocation of material, labor, capital, knowledge, and other factors of production across firms has become conventional. Invention and innovation proceed apace in nearly every sector of human activity, and an impressive architecture of specialization and international trade and exchange among firms, governments, and individuals has emerged and become elaborated.

THE PARADOX OF MARKET-BASED ECONOMIC SYSTEMS

However, while the quest for prosperity has produced great output (e.g., performance), it has not always produced great outcomes (e.g., progress). On the one hand, capitalism continues to create wealth and prosperity for an ever-increasing number of people around the world. Since the early 1990s, more than one billion people have emerged from abject poverty (Radelet, 2015). Malnutrition, illiteracy, child labor, and infant mortality are decreasing faster now than they ever have in human history (Norberg, 2016). Across the world, over the last 100 years, the incidence of violence (Pinker, 2016) and slavery is down (Norberg, 2016). In more and more countries the rights and liberties of diverse minorities have become protected, not only through law and policy but also through changed societal norms (Pinker, 2016). While the causes of these improvements are complex and varied, many scholars agree that they stem at least in part from the diffusion of capitalism throughout the world (Norberg, 2016; Radelet, 2015). Voluntary exchange and free market competition—as Adam Smith (1776) anticipated—have been a remarkable engine of economic growth and progress.

On the other hand, there is a fundamental dissatisfaction with the current situation. Abject poverty continues to hold in its grip billions of people around the world (Radelet, 2015). Many scholars argue that inequality is on the rise

Comments from Bill Hesterly and Jason Snyder were helpful in developing this essay.

(Piketty, 2014; Stiglitz, 2012; Wilkinson & Pickett, 2009), as is the political and economic corruption associated with it (del Rio & Lores, 2016). Others argue that in some countries GDP is up while well-being is down, power is up while fairness is down, and business models are up while business morals are down (Sen, 1999). Even in prosperous countries, workers have seen their job prospects erode and their incomes stagnate (Mishel, Gould, & Bivens, 2015). In frustration, a portion of those "left out and left behind" are looking to some of the "isms" that many thought were no longer an important part of modern discourse—nationalism, racism, anti-Semitism, sexism, tribalism, and communism—as their preferred solutions (Chua, 2018). All the while, reports on our natural environment go from bad to worse (Serrao-Neumann, Coudrain, & Coulter, 2018). While the causes of these numerous challenges are complex and varied, many scholars agree that they stem at least in part from the diffusion of capitalism throughout the world (e.g., Piketty, 2014). In this setting, trust is in decline—not just in capitalists but also in capitalism itself (Foroohar, 2016).[1]

Given these paradoxical trends, it is not surprising that our political discourse has become fractured and vitriolic (Geiger, 2017), and sometimes even violent. Even among scholars, too much of the debate about these issues has taken the same fractured route: "free market capitalism is the only way to economic growth and progress" versus "free market capitalism is concentrating wealth in the few, oppressing the many, and destroying the planet in the process." Partly because there is much truth on both sides, such debates often generate more heat than light.

THE NEED FOR NEW THEORETICAL PERSPECTIVES

Debates between these extreme points of view are likely to continue, even among scholars. But, as social science theorists, we wonder if there is not another direction. Rather than restating "well-plowed" theories—only louder—this might be a time to develop new theoretical approaches to understanding capitalism, approaches that acknowledge both its successes and its failures.

These new theories are likely to bring into question generally accepted thinking about many aspects of organizations in the economy and society and how they are managed. Consider just a few issues these new theories about capitalism might address, as follows.

Delivering economic prosperity and progress: What is prosperity? What is progress? Is it possible to design an economic system—including versions of market-based capitalism—where both these goals can be realized, or are they antithetical? What would such a system look like, or do we have to choose—emphasizing prosperity sometimes and progress other times?

The provision of collective goods: High-quality collective goods—including education, the environment, and even social institutions—are essential to economic development and a well-functioning society. Markets sometimes fail in providing these. Governments can also fail in providing these goods. What role, if any, can and should firms play in providing these kinds of collective goods?

Incorporating morality in economic decision making: Traditional economic models of decision making focus on the discounted present value of the cash flows generated by a decision. Such models can at least partially incorporate broader social concerns by examining the impact of the social consequences of a decision on the cash flows associated with that decision. However, neither of these approaches addresses the fundamental morality of a decision. Business decisions are not only technoeconomic in nature but often have moral and philosophical dimensions as well. In short, they are not just decisions; they are also choices. Is it possible to incorporate morality into decision making in firms? What would be the implications of this approach for addressing trade-offs among the interests of different stakeholders, and what are the implications of these trade-offs for society more generally?

The value of work: It is clear that work has an economic dimension; it is the way that most people make the money they need to care for themselves and their families. It is also clear that work has a social dimension; work is where many people form some of their most significant social relationships. But does work also have a moral dimension, beyond its economic and social consequences? For example, is work a moral good, even if it does not have economic and social consequences? What implications does the possible moral value of work have for the growing interest in government policies, including a universal basic income?

[1] At the same time there is a global increase in transactions among strangers via the web.

New trends in organization and management: In his important article on the fundamental assumptions of finance, Zingales (2000) made a strong argument that our current theories of the firm explain the structure and management of firms—as they existed in the 1950s. Many modern firms are more like loose and constantly changing affiliations of employees, technologies, and other factors of production than they are the managerial hierarchies described by Williamson (1985). What organizational structures and managerial processes are likely to be effective in this new kind of firm? In this context, what do firm boundaries mean? What does having a "boss" mean, and is there really anything such as "managerial fiat"? What is leadership in this firm? How is it possible to manage teams that transcend firm, country, and social and cultural boundaries? How do these kinds of firms generate profit, and who appropriates it?

Measuring organizational accountability: Efforts to measure the social performance of firms began as early as 1990, with work done by KLD Research & Analytics. More recent efforts to measure this dimension of firm performance include the Global Reporting Initiative (GRI) in 1997 and the Sustainable Accounting Standards Board (SASB) in 2011. Do these and other approaches to the measurement of social performance address all the issues that are important in society? Do they address all the issues that are important to financial investors? How can trade-offs between these measures of social performance and financial performance be managed? Do these measures address the fundamental morality (or immorality) of business decisions?

Modern corporate governance: The basic structure of corporate governance—with boards of directors representing the interests of equity holders by monitoring managerial performance using accounting performance data—was developed in the 1920s (Chandler, 1977). While U.S. regulators doubled down on this approach to governance with the Sarbanes-Oxley Act of 2002, the question remains whether this approach to governance is likely to be effective in modern markets. For example, in a world of social media and the Internet, why do most corporate governance theorists assume that monitoring can only be done by the board? What should a board look like today, or should it exist at all? Does the assumption that managers and employees will shirk their duty to shareholders still apply? How does corporate governance work when firms are accountable to stakeholders besides shareholders?

Efficiency and inequality: As long as economic actors vary in capabilities and competencies, competition in markets can generate unequal economic outcomes, even if these actors all have identical access to opportunities (Barney, 1991). For firms, this inequality may lead to more concentrated industries (OECD, 2018; Pryor, 2001). For individuals, this inequality may lead to increased income disparity (Piketty, 2014).

Some have argued that inequality may, in some circumstances, be morally justifiable (Rawls, 1971). But economic inequality among firms or among individuals can enable "winners" to influence the structure of future opportunities—through exploiting barriers to entry, through political contributions to capture government regulators (del Rio & Lores, 2016), and even through outright corruption—to help maintain their advantages.

In this context, can the remedy of efficient innovation and "creative destruction" realistically overcome these incumbency advantages of firms (Schumpeter, 1942)? And can economic mobility remedy the incumbency advantages of increasingly concentrated wealth (Ichino, Karabarbounis, & Moretti, 2010)? Even if innovation and mobility do break down the power of current elites, what is to prevent these successful newcomers from becoming the next generation of winning incumbents, reaffirming the same constraints that made their own accession challenging? Moreover, what implications does this possible "cycle of inequality" have for individuals in the economy and their perceptions of fairness and opportunity for themselves and for their children?

A NEW APPROACH TO THEORIZING

The STF announced in this issue of *AMR*—New Theoretical Perspectives on Market-based Economic Systems—is a call for theories that address these and similar issues. The editors of this STF—Elizabeth Anderson (University of Michigan), Jay Barney (University of Utah), Rebecca Henderson (Harvard University), John Meyer (Stanford University), and Subi Rangan (INSEAD)—acknowledge that many of these and related questions transcend conventional boundaries in management scholarship. They are both micro *and* macro, problems in both organizational behavior *and* strategic management, in human resources *and* organization theory, in organizational change *and* international management, in entrepreneurship *and* technology management. Even more fundamentally, they are questions that transcend management scholarship itself and that need input from other business fields—including finance, accounting, and marketing—as well as nonbusiness fields—including economics, history, psychology, sociology, philosophy, and so forth.

Indeed, it is not surprising that the search for new theories on market-based economic systems would be so fundamentally interdisciplinary in nature. After all, one reason why we do not yet have a clear understanding of the interaction between economic progress and societal progress is precisely because much of the past conversation has not been interdisciplinary in nature. This is also one of the reasons why the current dialogue on these issues is so fractious and sometimes acrimonious. So, in this STF, we are calling not only for new theory to understand evolving market-based economies but also for a new approach to theorizing—one that recognizes, yet nevertheless transcends, the theoretical and conceptual boundaries that have separated our scholarly communities in the past.

To this end, the STF editors represent a broad cross-section of intellectual traditions and perspectives, including philosophy (Anderson), strategic management (Barney), innovation and technology management (Henderson), sociology (Meyer), and international political economy (Rangan). Although heterogeneous with respect to their research interests, this group of editors is homogeneous with respect to their belief that it is time for more organization and management theory to address some of the most crucial issues of the day.

It is our hope that scholars from many disciplines, and from many countries, will join with us to begin to address the relationship between organizations and management and the broader issues of progress and prosperity we all will face.

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Jay Barney
Editor

Subi Rangan
Associate Editor