THE PROMISE OF ECONOMIC SOCIOLOGY

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These commentaries, from five of the sharpest minds in sociology, confirm our belief that economic sociology is developing a coherent and powerful set of concepts and methods for analyzing major economic and business trends. Economics as a field has not done much to address the most important changes in corporate strategy and structure over the course of the 20th century. The business historian Alfred Chandler recounts the history of the modern firm in a framework that is broadly consistent with the tenets of neoclassical economics, but that is as close as we get to an explanation based in economics. Ever since economic sociologists began to reapply their concepts and methods to the topic, in the late 1970s, we have seen the promise of the discipline to fill a gaping intellectual hole – a comprehensive understanding of where the main trends in corporate behavior come from.

Diane Davis has assembled a superb group of commentaries, from some of the people who have contributed most to the development of the ideas presented in our chapter. In the chapter, we build on the work of these scholars. In their commentaries, each author builds on the synthetic view that we sketch. What is most striking about the commentaries is that each one of them could be pasted, almost verbatim, into the chapter we wrote as further elaboration of the story told there. The promise of economic sociology is that the field has come to such a rich, and nearly consensual, view

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of where the shareholder value revolution came from, if not quite of where it is going.

Richard Swedberg's contribution might be incorporated into the theoretical introduction of our chapter, for he elaborates on the importance of the social construction of interest in economic sociology. Swedberg's (2003) most recent theoretical contribution has been to revive the neglected concept of interest in economic sociology, and to show us how it might help to inform current thinking. Building on Weber, Swedberg argues that we should see interest as important but as historically variable. In the case at hand, the key actors in the shareholder value movement redefined their own interest over time. Investors and boards defined an interest in aligning CEO interests with their own economic interests, and stock options were the result. In his commentary on our chapter, Swedberg mentions Michael Jensen and agency theory as important components of the shareholder value revolution, because of course agency theory became the theoretical underpinning for the new compensation system that we identify as at the heart of the change in firm strategy. Here, Swedberg rightly underscores the important role of experts and theorizing in the construction of interest, a role that surely deserves more attention in studies of the groups contending to shape corporate behavior. What Swedberg did not mention was his own fascinating work (Swedberg, forthcoming) that points to the importance of consulting and accounting firms in the rise of the finance-oriented shareholder value conception of the firm, a component largely neglected in our story. Here was one more group that built business strategies in the name of shareholder value that were very much in the group's own interest. We have what might be better called the consultancy-value corporation, if not the hostile-takeover-, institutional-investor-, securities-analyst-, or CEO-value corporation.

Mark Mizruchi and Howard Kimeldorf's contribution might be incorporated into our chapter just after the introduction, as a theory of the precursors to the shareholder value revolution. They provide the prequel to the story we tell, for they show how the existing business elite, with its particular assembly of corporate practices under the reigning theory of diversification, lost power allowing a new elite and new set of business practices to emerge. In the immediate post-war period, strong labor unions, a growing regulatory welfare state, and a strong business elite centered on powerful banks produced a sort of stability in the corporate environment. Those strong labor unions developed strategies based on organizational and movement practices, and thus institutions wagged the dog of ideology just as they do in the story we tell (Kimeldorf, 1999). This all began to unravel in the 1970s when the dual economic crises of inflation and unemployment undermined the stability of the business elite and its banking system, on the one hand, and of organized labor, on the other. When Reagan came to office in 1981 on a platform of massive deregulation he thus faced little resistance. Deregulation destabilized the conglomerate, not least by undermining the kind of antitrust enforcement that had been the foundation of the diversification strategy. These changes provided an opening for a new financial elite to enter, with new ideas about how firms should be organized. Labor and the prevailing bank/corporate elite were in no position to challenge the rise of star CEOs, securities analysts, and institutional investors. One might expect that the structure of political financing, which has a recursive effect through regulation, changed significantly in tandem (see Mizruchi, 1992). Mizruchi and Kimeldorf thus provide missing pieces of the puzzle, and pieces that fit nicely into the theoretical framework, which privileges the social construction of interest in the pursuit of group power and which allows a large role for historical, and institutional, happenstance.

If Mizruchi and Kimeldorf provide the prequel to the argument we make, Fligstein provides the sequel. As Swedberg points out, our analysis is founded on Fligstein's (1990, 2001) theory of "conceptions of control" and how they shape the evolution of business strategy. Fligstein questions our conclusion that the Sarbanes–Oxley Act, designed to prevent the kinds of malfeasance that Enron became emblematic of, will not change much. The tag line of our chapter is that institutional investors, security analysts, takeover firms, and CEOs themselves have created a new world, and constructed their own interests as consistent with the pursuit of constantly increasing stock prices. We contend that Sarbanes–Oxley has not done much to change that world. CEOs now have to sign off on their earnings statements and accounting firms are more insulated from consultancies and from corporations themselves, but we contend that CEOs still see it as in their interest to game quarterly earnings reports to increase the value of their own stock options. We believe that nothing short of an end to stock options will put an end to this chapter in corporate strategy. Fligstein offers a more nuanced analysis of financialization, suggestion that financialization in pursuit of higher reported quarterly earnings has come to an end. Fligstein thus introduces an important distinction. CEOs may still see it as in their interest to boost quarterly earnings, and it is difficult to see how they would think otherwise so long as they reap benefits through stock options for doing so. But financial instruments, and particularly the complex instruments that Enron used, have proven to be a poor way of boosting quarterly earnings. Fligstein makes a compelling case that shareholder value, as it has come to be associated with these instruments, has likely come to an end. What he sees ahead is another sort of financial strategy altogether, "the hollowing out of firms through supply chain management, outsourcing, partnering, just in time inventories, and the extensive use of computer technology to manage flatter firms faster." This is clearly already happening in some industries, but it is still so new as to lack a shorthand.

Elisabeth Clemens sketches a sort of coda that might equally well be incorporated into our own chapter. Clemens shows that what is going on in the period is not just a change at the top, but a change in the way society at large is integrated through common (or divergent) interests in the financial system. In her own work, Clemens (1997) has charted the historical emergence of the modern idea of interest, and of interest groups, in America's 19th- and early 20th-century political economy. In this case, not only CEOs, institutional investors, and security analysts see themselves as having vested interests in the system, but also the average worker through her defined-contribution pension plan (in which she assumes the risk her employer used to assume). Which is, after all, managed by the institutional investors who were at the center of this revolution. Who benefits from all of these changes? This is Clemens' key question. In the 1990s, the run-up of the stock market disproportionately benefited CEOs, whose salaries increased 100-fold in many cases. But teachers and bricklayers were seeing their retirement portfolios flourish as well. Clemens thus brings us back to Mizruchi and Kimeldorf's observation that some of these changes were facilitated by the decline of labor as a force for corporate regulation. The defined-contribution pension plan that came to dominate in the last quarter of the 20th century certainly realigned the interests of workers, and one consequence is that their new agents, institutional investors, came to support remuneration packages for CEOs that ran to hundreds of million dollars. Just a generation before, workers previous agents, unions, had fought hard against executive compensation schemes that, in a zero-sum game, diminished worker wages. This strange twist reinforces one of our central claims, that interest is constantly changing and socially constructed, and difficult to read through the lens of neoclassical theory's concept of self-interest.

The sociological explanation of the shareholder value movement that we sketched, and that others expanded in their commentaries, depends on ideas that have been with sociology from its very inception (Dobbin, 2004). Power shapes the social institutions, from antitrust regulations to portfolio strategy, that we come to take for granted as efficient and fair. These institutions, such as the institution of stock options, that gain inertia come to be difficult to disassemble. Groups actively theorize and construct the efficiency of particular institutions, and they often theorize their own interest at the same time. They become powerful by defining their interests as aligned with society's interests, which these days revolve around progress and equality. In other words groups, be they social classes or the kinds of fine-grained management specialities that held center stage in our story, win in battles over which practices and theories will prevail by defining the institutions they favor as good for everyone, as Marx argued about capitalists and the 19th-century state.

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