ON THE IMPORTANCE OF ANALYZING ECONOMIC SCANDALS AND CONTEMPORARY ECONOMIC INSTITUTIONS: A COMMENT ON DOBBIN AND ZORN

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"Corporate Malfeasance and the Myth of Shareholder Value" is an excellent article that suggests several interesting contributions to economic sociology. The most important of these is clearly the attempt to explain how the notion of shareholder value emerged and how it has come to play such a central role in the current corporate economy. One way to describe the accomplishment of Dobbin and Zorn would be to say that the authors accept and add to Neil Fligstein's suggestion in *The Transformation of Corporate Control* and later writings that the best way to understand contemporary U.S. capitalism is to focus on the large corporations and how their strategies (or rather, how their conceptions of their strategy) have changed over the years (Fligstein, 1990, 2001; Fligstein & Shin, 2004). Fligstein has laid the empirical foundation for this type of analysis by carefully following the development of the big U.S. corporations from the 1990s and onwards; and in doing so, he has relied mainly on the concept of

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field (from organization theory and Bourdieu) and on the concept of conception of control (based on a mixture of Weber and March).

Dobbin and Zorn's main contribution to the Fligstein's enterprise is to provide a historical-sociological explanation of how the notion of shareholder value has emerged, and also how the earlier strategy of corporate diversification came to be rejected. They suggest that this process was primarily the result of the activities of three groups: managers of hostile takeovers, institutional investors, and securities analysts. The role of Michael Jensen and agency theory is touched on, but was not assigned major importance. The idea that the boom of the 1990s should have been instrumental to the rise of shareholder value is rejected.

The discussion over the next few years will decide whether Dobbin and Zorn's theory of the origin and development of the notion of shareholder value will hold up to historical scrutiny or not. In relation to what is known today, I think that it will do quite well, even though I would have liked the authors to have more references in their article. Regardless of this issue, Dobbin and Zorn have produced a high-quality article for debate, in the best tradition of *Political Power and Social Theory*.

Besides making a fine contribution through their explanation of the rise of shareholder value, Dobbin and Zorn have some other interesting things to say, and in the rest of this comment I shall elaborate a bit on these. The first part is about the corporate scandals that have occurred since 2001 and which are still going on. Another is the issue of the giant sums of money that CEOs, since the 1990s, have begun to pocket. There is finally also what Dobbin and Zorn refer to as the social construction of interest.

ECONOMIC SCANDALS

Dobbin and Zorn discuss the role that the rise of shareholder value has played in the behavior that led to the corporate scandals from 2001 and onwards, and they also discuss the link between the notion of shareholder value and malfeasance more generally. Their basic argument is that there is a distinct tendency for corporations that are operated according to the principles of shareholder value to engage in corrupt behavior. More precisely, in an attempt to live up to securities analysts' predictions, they will falsify the books. Attempts to stop this type of behavior through legal means, such as the Sarbanes-Oxley Act, will not succeed since they do not eliminate the main reasons why the books are cooked in the first place.

The questions that Dobbin and Zorn raise about shareholder value and malfeasance point, as I see it, directly to the need in contemporary economic sociology to address the issue of *scandals in economic life*: why these occur and how they are played out. Several different theoretical approaches to economic scandals exist, and all these have something to add to a sociology of economic scandals. There is first of all the most popular explanation of all, namely that *greed* is the cause of economic scandals. According to another common theory, economic scandals are *inherent in the economic system*; and attempts to put an end to them through legal measures are consequently illusory. One may finally also argue that economic scandals are the result of *several different social mechanisms* and not necessarily the same in all cases.

The explanation of economic scandals, in terms of greed, is mainly to be classified as a psychological theory and is as such not suitable to occupy the central place in a sociological explanation. Weber had already pointed out in *The Protestant Ethic* that one cannot explain modern capitalism and its dynamics by referring to individual greed (e.g. Weber [1904–05] 1958, p. 17). The impulse to make money is universal, according to Weber, and always mediated through social structures. This is also the case with modern capitalism, which in some ways may even be understood as a way of *suppressing* the desire for short-term profit, to ensure stable and long-term profit (*ibid.*). While greed, to sum up the argument, is present in economic scandals, it cannot in and by itself account for these scandals and how they are played out.

The idea that economic scandals are built into the economic system, and that it therefore is futile to try to stop them, is nearly as common as the idea that these scandals are caused by greed. One version of this type of reasoning can be found in Charles Kindleberger's *Manias, Panics and Crashes* (1978), which draws inspiration from Hyman Minsky's ideas about financial crises. The basic idea here is that there is first a boom, then a mania, followed by a crash. The crash is "intimately bound up" with illegalities of various kinds – and hence we have our scandal (Kindleberger [1978] 1996, p. 66). A similar argument is implicit in much of Marxist literature, where capitalist expansion and greed-induced scandals are equated. Polanyi, finally, speaks of the so-called secondary movement, by which it is meant that radical pro-market measures will always lead to counter measures to safeguard the community – which in turn will lead to a response from the pro-market forces, and so on. There is a path-dependent dimension to this type of argument, but also a tendency to emphasize that the same basic process takes place over and over again. This cyclical tendency in Polanyi's thought, it may be added, plays a key role in the well-known work of Mitchel

Abolafia, *Making Markets*. Abolafia here suggests that the traders on Wall Street are caught in "cycles of opportunism," which can be described as follows: opportunistic trading leads to pressures for restraints; and once these restraints have been in existence for some time, traders will start to behave in an opportunistic way again, which necessitates new restraints, and so on (Abolafia, 1996, pp. 179–181).

The ideas of Kindleberger, Marx, and Polanyi can be described as structural and tends to be mono-causal. They are also macro- rather than micro-oriented in the sense that they all take for granted that there is a tendency for there to be economic scandals in the modern capitalist economy. Dobbin and Zorn's analysis belongs to some extent to the same category, since they argue that there is an inherent tendency to engage in illegal activities, such as cooking the books, in a corporate economy dominated by shareholder value. The idea that for example the legal system can be used to stop the cooking of the books seems to be ruled out in advance.

My own view is that an empirical stance in these questions is difficult to couple with the assumption of inevitability; and to illustrate the complexities involved I would like to point to Eliot Spitzer's various attempts to come to terms with illegal economic behavior during the last few years. Spitzer has single-handedly taken on very powerful brokerage firms and mutual funds; and his behavior is hard to capture with the help of general theories by Kindleberger, Marx and Polanyi. I also would argue that it might be useful to conceptualize economic scandals as the result of several social mechanisms that happen to work together, and not as the result of some inevitable general tendency in a system. One may, for example, analyze the various ways in which the legal system attempts to deal with innovations in the economic system. Sometimes the negative impact of these innovations may be blocked or redirected through laws and regulations, such as conflict of interest legislation. To have the same person in charge of analyzing stocks *and* getting a bonus for selling certain stocks represents a situation with a strong conflict of interest that can easily be avoided through legislation. Regulation Fair Disclosure (according to which all investors are legally entitled to the same information) is another example of how a situation that earlier led to much abuse of small investors has been remedied through skillful legislation. What all of this adds up to, is the question whether it is correct to argue that there exists a distinct tendency to malfeasance in the current economy that cannot be stopped through legislation. In brief, I would like to ask Dobbin and Zorn if it really is (1) inevitable that shareholder value leads to the cooking of books and (2) that legal attempts to stop this will be futile.

CEO PAY

As part of their analysis of the rise of shareholder value and the accompanying tendency to malfeasance, Dobbin and Zorn touch on the issue of CEO pay and how it shot up enormously during the 1990s. On this point I would like to also refer the reader to Roger Lowenstein's (2004) excellent book *Origin of the Crash*, in which the story is told how in the 1980s *one million dollar* was seen as something of a maximum salary for CEOs, and sums in excess of this caused quite a bit of debate since they were seen as immoral. Today, as we know, a number of CEOs made *several hundred million dollars* during the 1990s; and it now became possible, for the first time in U.S. history, to make an enormous fortune without having created your own corporation such as the Fords, the Rockefellers, and so on.

My reason for bringing up the issue of CEO pay in this comment is that I would like to take the opportunity to state that I find it depressing that contemporary stratification experts in sociology have paid so little attention to this issue, which on the other hand has upset the average American quite a bit. Here is a topic for public sociology, if ever there was one. The neglect of CEO salaries in stratification research can also be read as a sign that it is about time that economic sociologists start to move into this field. It is definitely possible to argue that an economic sociology that does not deal with "who gets what and how" is seriously incomplete. Similarly, it is clear that to understand "who gets what and how," you also need to get into the issue of *wealth*, not only *salaries*. It was precisely by granting their CEOs options that corporations in the 1990s succeeded in bypassing the public taboo against excessive CEO salaries. The study of wealth and salaries belong together – in economic sociology, if not in stratification research.

THE SOCIAL CONSTRUCTION OF INTEREST

Dobbin and Zorn assign a key role to *interest* in their explanation of the rise of the notion of shareholder value. The three groups that were instrumental in ushering in this new notion, they argue, succeeded in changing the existing incentives in such a way that shareholders and executives began to view their interests from a new perspective. How this came about is referred to by the authors as a "social construction of interest" (p. 2).

I find the emphasis of Dobbin and Zorn on interests refreshing, since much of today's sociology, including economic sociology, focuses exclusively on social relations and does not address the issue of what drives the actor. The result of neglecting interest is that the whole explanation comes to rest on social relations, something that leads to a lopsided and myopic view of the world.

Interests, it can be added, may be defined in a quasi-biological fashion ("people always have certain interests") or in a more social manner ("people's interests are defined socially"). As an example of someone who tends to discuss interests according to the former position, one may mention James Coleman; and as an example of someone who has a social constructivist approach, there is Pierre Bourdieu (e.g. Coleman, 1990; Bourdieu & Wacquant, 1992). Dobbin and Zorn clearly follow the strategy of Bourdieu in their article; and I agree that this is the way to go when one analyzes the role of interests in modern capitalism.

Having argued myself for an interest-approach in economic sociology, I am not only pleased to see that Dobbin and Zorn seem to be of a similar opinion, but also note the skill with which they apply this perspective. Their argument is that three groups of business experts helped to redefine the interests of executives and shareholders. They emphasize that these three groups could not possibly have known what the outcome of their actions would be. They also argue that these three groups were so successful in redefining interests because they fervently believed the new conception of shareholder value themselves. Dobbin and Zorn write that "they conned themselves first and foremost;" and I think that this is a good description of how people become more successful in persuading others when they believe something themselves. What we have here, in other words, is an example of what Sartre calls "bad faith," and which seems to be quite common in business: you do not so much lie to others as to yourself (Sartre, 1966, p. 18).

The general problem in the type of analysis that Dobbin and Zorn focus on, is described as one that involves "*the capacity of one group to define the interests of another*" (p. 17; emphasis added). This is a fine formulation, I think, which is also applicable to a host of other phenomenon, from advertisement to education. According to agency theory, the principal has an interest in having the agent doing something for him/her, but also has to remember that the agent has distinct interests of his/her own. Dobbin and Zorn, in contrast, have put their finger on a somewhat different, but similarly important situation, thereby expanding interest theory.

CONCLUDING REMARKS

By way of concluding this comment, I would like to make one additional observation. This is that Dobbin and Zorn's article in a very successful way takes on *a current economic topic*; and that in doing so, the authors show how powerful the perspective of economic sociology can be. The reason why I emphasize this seemingly trivial fact is that many of my colleagues in the United States, who are economic sociologists, claim that economic sociology should *not* view the analysis of contemporary economic institutions in the United States as its main task. This represents a much too demanding task, they argue, since we economic sociologists do not have resources to take on what is currently going on in the U.S. economy. The key task of economic sociology should rather be to develop new and interesting concepts, with which any economy can be approached, in an economic-sociological fashion.

It is true that these two perspectives tend to merge at one point. Still, if there has to be a choice between the two tasks – and it seems that one does have to make a choice today, given the fact that the resources of economic sociology are small – it may be preferable to prioritize the task of analyzing the ongoing economy as opposed to the task of developing new concepts. One reason for this is that live and interesting sociology tends to grow out of a confrontation with contemporary reality, as illustrated so well by Dobbin and Zorn.

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