Ten theses on the firm as a democratic institution[*]

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Abstract

The paper contributes to revising the notion of the firm by a) reconstructing the conditions in which a firm-like entity may be necessary for conducting economic action; b) showing that such an entity can be established by an agreement or contract associating and dedicating partners and/or assets (in most Civil Law countries called a contract of 'societas'); and c) arguing that such an entity, as any legally recognized association, in modern constitutional democratic legal orders, is bound to be governed according to democratic principles and procedures. Different types of firms differ according to who are the principals in the democracy, and whether the *'societas'* is a society of assets or of people.
Those theses allow to derive some other relevant implications of the nature and governance of the firm (for example, the irrelevance of the objectives pursued, and the relevance of responsibility toward third parties, for defining a firm). The whole set of propositions is exposed in 'ten theses'.

Introduction

The starting question of our analysis is, so to speak, a 'zero-based analysis' question : When and why the constitution of an entity, such as the firm, is necessary for undertaking economic action, i.e. other ways of associating or transacting fall short from providing adequate support? What is the 'glue' that can bring and keep different actors together in such an entity, i.e. what is the 'relation' between individuals/primary groups with such an organization? Those questions lies at the core of organization theory and organizational economics ever since, and received various responses**. W**e shall consider here only those lines of thinking that take the existence of collective actors as problematic and voluntary, to be reconstructed starting from the 'decision to participate' by individuals or individual-like actors (i.e. by actors that can be modeled as nodes of homogeneous knowledge and interest). In this perspective, economic organization is based on *agreements*, on formal-legal and/or informal-social *contracts*.

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In fact, the term 'contract' derives from the Roman Law *'contractus'* (from *contrahĕre*, a composite of *cum* – with - and *trahĕre* - to draw, to pull), meaning to 'pull together'. What brings or pull any parties together – in common activities ranging from marriages to firms, from cultural associations to inter-firm alliances - are, according to modern definitions of contracts, 'agreements that institutes rights and obligations' among two or more parties, a 'promise or set of promises made by one party to another'. Hence, in this wide and proper meaning, contracts are not just 'means for regulating exchanges'. They can also regulate the 'association' of parties (Vanberg 1985). More: they can even establish entities and 'condominiums' hosting parties or assets (Goldberg 1976). The first section of this paper summarize those arguments, extending (or more precisely re-establishing the breadth of) the notion of contracts as agreements that may be able to found organizations, even when intended as entities, not only to regulate transactions and being an 'alternative' to organization, as they came to be considered in organizational economics. In the subsequent section, it is argued that such extension of the notion of contract, so as to include all kinds of agreements allowing the 'association and dedication of assets in a continuous way' (Demsetz 1991), can explain the constitution of firm-like organization in a simpler and more parsimonious way. In addition, the argument relocate the firm within the domain of any 'normal' legally recognized association, for explain which no special 'theory of the firm' is further needed; and the governance of which should comply with the rules of democracy valid for any association in democratic constitutional orders. Those implications for the nature of the firm are exposed in ten theses on the firm as a democratic institution.

Contracts as organization

From contracting on actions to contracting on decision procedures and rights . Contracts can not only regulate what is done or exchanged, but also how to decide what to do or give. This is quite an interesting property, especially for contracting under uncertainty. In fact, a core logic for negotiating and contracting rationally, while avoiding the prediction of action, of contingencies and of the payoffs themselves, is to contract on decision procedures rather than on actions and projects: *no matter what the payoffs*, *the actions and the states of the world* will be, it is specified who (what type of actor) will have a claim on them and in what proportion (divided according to which rule) and according to which procedures decisions will be taken.

First and foremost, Simon (1951) put this shift from substantive to procedural agreements at the heart of the constitution of organization. The essence of the employment contract is precisely a shift from contracting on

the services to be provided (a labor 'sale' contract) to contracting on a transfer of the residual right to select tasks from one actor to another. Simon also stressed (albeit this is often forgotten) that *authority is 'only one of the possible procedures' for solving the problem of contracting under uncertainty*. In the last part of his seminal paper, he examined the consequences of relaxing the assumption of workers' quasi-indifference on tasks. The consequence he drew was that, if agents hold defined preferences over tasks to be performed, the Pareto-superior employment contracts entails a more diffused allocations of decision rights, such as the co-determination or even the self-determination of action.

In law and economics, Goldberg (1976) early made the important observation that contracts do not necessarily concern only agreements on the terms of exchange, but they may also or mainly concern agreements on the *procedures* to be followed for changing those terms and regulating the parties' relationship: they establish "a constitution regulating the on-going relationship". These agreements are also sometime called 'relational contracts'. In this view, though, 'relational' contracting does not mean 'informal' 'self-enforceable' contracting, as in the incomplete contract tradition. It means that the formal contract is used to govern the relation more than the content. This observation highlights that part of contractual provisions may have the nature of 'procedural' stipulation on 'how to proceed', rather than 'substantive' stipulations on what to do. This notion opens the door to envisage an entire new and different type of contracts with respect to those considered in not only in classic economics but also in new organizational and institutional economics. Decision rights and their allocation is a contractible matter, actually contracting on who and how is to decide on action, rather than on actions to be taken, is a way of completing contracts under uncertainty, rather than an extra-contractual device.

Empirical research on contract content also provide support. To give just one important example, in a detailed content-analysis of a large sample of biotechnology alliance agreements, Lerner and Merges (1998) observed that rather than trying to spell out "a myriad of possible world-states, and dictating outcomes under each of many scenarios" these contracts focus on "discrete aspects of the fundamental ownership right over the research results."

All in all the contributions and results analyzed so far indicate that it is possible to *'write contracts under a veil of ignorance'* ; and that those contracts are all about decision (and property) right allocations. To the extent that the underlying heuristics is to shift from deciding and negotiating on actions to deciding and negotiating on decision rights and procedures, they do not even need be incomplete. Actually any written

contract for the provision of a good or service is typically 'completed' by residual decision right assignment clauses and/or decision procedures specification. In some cases, those clauses recognize public or private arbitrators – e.g. 'for all matters not specified in the contract, the parties accept court/arbitrator … as the forum of competence'. In other cases, the conflict resolution procedure may be based on principles of check and balance and inter-party control. For example, in an in depth study on the governance structure of a consortium for the construction of a medium-sized power station in the US, it was found (Grandori 2001) that the agreement, reached after significant inter-firm negotiation, and specified into the formal contract, included the following provisions. Voting schemes and judgment aggregation procedures to be used in case confrontation and technical discussion could not bring about agreement and converge to a solution were specified in detail. The consortium was coordinated by a two-layered representative Committee system: an executive committee composed by all project managers; and a second committee extended to the directors and presidents of the three involved firms with residual arbitration and conflict resolution rights. This 'double chamber' solution was intended to solve the non remote risks that a three party democracy could run into decision impasses and (Arrowian) 'impossibility' situations.

Those data and cases then support the contention that decision rights are contractible, that contracting on them is possible and effective under uncertainty, and that the typical solution involves the sharing of those rights among the involved parties, rather than the assignment of the entire 'bundle' to one party. The Pareto improvement and Nash improvement of those contracts on rights can typically leverage on the different intensity of parties' preferences on the various rights, as well as on the some criterion of proportionality to the resources provided, as in any negotiation. Hence, not only we should expect property rights to be shared, but also to be assigned in an 'unbundled' and differentiated way.

From contracting on decision rights to contracting on asset ownership. As argued so far, if actions, states of the world and effects/consequences are undescribable, unsizeable and unforeseeable, rational actors cannot contract *on them*, but this does not imply that they cannot contract on anything. They can contract on the procedures for action selection and on fair division procedures over (unknown) effects and consequences, i.e. unknown results or payoffs . Still, this is not the only possibility and often it will not be sufficient. Procedures may also be difficult to define completely in an acceptable way. Second it may be unclear how to 'divide' and apportion rights in case the 'pooling of resources' generate 'team production' interdependence. Third, the idea that just by 'waiting' actors

will sooner or later 'see' what the good courses of action were, overlook the possibility that it may be difficult to ascertain which way of using resources is/was best, even ex-post of having observed the states of the world.

A further, and stronger move is however also possible in those circumstances. That move is already apparent in the researches on contract content reported above: it is possible to take a step backward in the causal chain, to consider the factors or resources generating actions and consequences, and to contract on those factors: evaluate not the projects/actions themselves but the causal predictors of their relative superiority, assessing resources (in search of use) rather than uses.

"…*if contingencies and appropriate actions are truly uncertain, actors are not condemned to incomplete contracting, but can still write a (complete) contract if they shift form contingent contracting over actions to non contingent contracting over resource commitments: to make a contract on committing resources 'no matter what' the states of nature or actions." … "These contracts are not incomplete in the sense that they are missing something; they leave tasks rationally undefined and contingencies rationally unforeseen – and specify property rights over resources instead". (*Grandori *2010)*

That is, not only residual and non residual decision rights are contractible, but also residual reward rights and asset ownership rights are so.

A question/objection that may be advanced is how can these contracts (or components of contracts) on property rights may be considered enforceable and complete if they do not describe completely actions and contingencies. This objection though is generated by the already criticized notion of contract as a description and prediction of future worlds. The point is that fundamentally contracts are 'promises' (Fried 1981), not descriptions or predictions of the world. This is not a minor difference, from an epistemic perspective and for the capacity of contracts of governing relationships under uncertainty. Promises are based on 'forewill' not on 'foresight'. A testament, or a marriage contract, may include familiar examples of promises of the type 'I will do that, *no matter what the contingencies*'. Hence, logically speaking, there can be such a thing as a complete promise with incomplete knowledge of the world.

On the other side, it is correct to observe that a rational actor would not accept to make such promises, unless some conditions are met. Those conditions do not necessarily lie in knowing what one's position will be in future states of the world, though; nor in knowing which the payoffs of various streams of projects are going to be. The necessary conditions are weaker. First, a causal and ordinal judgment of the type 'with a resource collection of this quality, good projects and results can be expected' or

'better projects/results' than with alternative conceivable resource collections (again, like in the choice of a partner for a marriage contract). Second, agreements and contracts can be judged to be acceptable 'under a veil of ignorance' about the particular situations, actions and results (Rawls 1971) rather than out of knowing everything. As known, this is the very meaning of a fair contract. As it is also known, it is easier to express judgments and to find agreements about rules and procedures, rather about specific actions (Brennan and Buchanan 1985). Hence, contracts do not 'fail' altogether under Knightian or epistemic uncertainty: it is possible to reach agreements, even complete ones, without knowing a, s and e, by contracting at the higher level of assets and actors, procedures and rights.

But contracts can do even more.

From property right sharing to legal entity establishing. Contracts can not only establish partnerships and apportion rights, they can also specify whether the association involves only property right sharing among partners that remain separate 'legal entities', or also establishes a new 'legal entity' hosting the partners' contributions.

This is the reason why the firm 'is' in a very real sense (rather than 'can be seen' like in a metaphor) a 'collection of resources' and a 'pool of assets': because contracting on resources is a way out from the impossibility of contracting on action, and the 'legal entity' (Blair 2004) or 'contract of enterprise' (Grandori 2010) is stipulated over resource commitments rather than on particular actions.

Some comments are due on the different legal status, but converging substance, of entity establishing 'contracts' or 'acts' in the American and European law and economics traditions. In the recent 'organizational law' perspective in the United States (e.g. Blair 2013; Hansman et al 2006) entity establishing acts are not seen as contracts because of the already discussed narrower notion of contract in the Common Law tradition with respect to the Civil Law tradition. In the latter, the juridical figure of the 'contract of enterprise' or 'contract of society' is prominent as a legal definition of the firm; 'contracts of exchange' are distinguished from 'contracts of association'; and whereas the association pool the resources by conferring rights over them to a jointly established legal entity, the contract is called 'contract of society' (contrat de societé, contratto di società, and so forth in Spanish, German and most European countries, as well as in their former colonies).

In Common Law systems, the distinction between 'in rem' and 'interpersonal' rights is made, but the notion of contract of society is

absent. Scholars in law and economic arrived anyway at a very similar notion, albeit usually contrasting the legal act of 'establishing entities' with the legal act of 'contracting' (Hansman et al 2006; Blair 2013), given the narrower meaning of contract in that system. As a consequence, they apply the argument only to some legally defined forms of enterprise – in particular the 'corporate form' – rather than to what a firm is in general (a central concern, instead, in Civil Law juridical thought). This did not prevent these scholars referring to a Common Law framework (including some British scholars as Hogdson (2002), from recognizing that, historically, the modern firm and its juridical regulation matured out of the regulation of *partnerships* in Middle Age and Renaissance. They also notice that the 'Corporation' - from the Latin 'corpus' (Blair 2013) – has two special properties that simpler forms of partnerships do not have: 'asset partitioning ' and 'asset shielding' (Hansman et al 2006). So these scholars concur in stating that partnerships, and entity establishing partnership in particular, are arrangements that differ in kind from a nexus of exchange contracts. They also concur in connecting the emergence of 'corporations' to the problem of 'dedicating assets' to risky and uncertain ventures, and in recognizing that other types of firms are forms of partnerships in which assets may not be partitioned and shielded.

The following Section further contributes in articulating a rational reconstruction of the need for 'firm-like contracts', as a rational solution to the problems of contracting in an uncertain and risky world: *'promising' to commit resources, accompanied by taking responsibility for any action deriving from their use; and agreeing on the decision rights and procedures according to which to govern that association of resources, thereby allowing parties to act and cooperate rationally in the absence of foresight*. In that explanation, the corporation becomes just a particular case among various forms of 'asset-based forms' of enterprise; asset-based forms become a particular case of enterprise (including also people-based forms of enterprise, like professional partnerships); and the firm itself in all its forms becomes a particular case of contract of society or 'firm-like' organization (including also other proprietary, entity establishing, 'condominium' contracts such as joint ventures, capital ventures, consortiated companies, equity cross-holding based business groups, GIEs).

Ten theses on the nature of the firm[1]

Thesis 1. *A firm is a device able to pool and commit assets to economic uses that cannot be foreseen and specified ex-ante.*

[1] These ten theses are based on a section of the just published book *Epistemic economics and organization* (Grandori 2013a)

Firm-like organization is a device for rational economic discovery, thanks to an agreement about what resources to commit today rather than on what actions to perform tomorrow. As particular cases, as argued in the theses below, we can find firms based on specific or non-specific assets; firms based on technical or human assets; firms based on partitionable (and partitioned) assets or on people, if they are inseparable from human assets; firms governed according to a variety of decision procedures, hierarchical or non hierarchical, according to the distribution of knowledge and preferences.

Thesis 2. *The resource pooling and commitment is not realized by a nexus of exchange contracts (that cannot be written with unforeseeable projects and contingencies), but by a single contract of society or entity establishing legal act including, at a minimum, the establishment of legally enforceable 'responsibility' toward third parties and the specification of parties property rights over the committed assets.*

What Demsetz (1991) considered the essence of 'firm-like organization', namely the 'continued associations among co-specialized, dedicated assets, coordinated by conscious direction' is actually applicable to a much broader class of agreements. Many associations, among people or firms exhibit those features. Some of those associations institute legal entities with separate juridical personality, like consortia or 'GIE' (Groupments d'Enteret Economique). In addition, even in those cases, the continued association is not achieved through a series or nexus of exchange contracts on what action to undertake under which circumstance. What distinguishes 'contracts of society' from those 'contracts of association', and even more sharply from contracts of exchange, is the fact that the 'society' holds property rights on the committed assets.

This seems to converge to the PRT thesis that firms are 'pooled of technical assets', but this is not the case. As argued in theses 3 to 5, the 'society' can be either a 'society of persons' or a 'society of assets', and the pooled assets can be either technical or human.

Thesis 3. *Different forms of enterprise can be adopted and are adapted according to whether assets (especially human assets) can or cannot be partitioned and shielded from people. The pool of assets is owned by the juridical person of the firm in all asset-based 'societies' or 'companies', who also holds related residual decision and reward rights; while in people-based companies property rights are held by the partners directly.*

The simplest type of firm that can be formed is a 'simple society' or 'people partnership'. The new entity is a firm if the partnership or society is 'liable' or 'responsible' for any intentional or unintentional relevant effect for third parties. The reason why this form of enterprise is seldom used for professional economic activity nowadays is that partners are fully and personally liable – their whole patrimony is at stake as a guarantee. Hence, this type of contract does guarantee legally enforceable responsibility among partners and toward society, but would be acceptable by the constituting actors only in a stable, low risk, low uncertainty world, as it provides low protection to the partners. In addition, it provides low protection also to third parties as the continuity of activity and the entity of the guarantees is limited by personal volatility and patrimonial endowment.

Hence a fundamental distinction among forms of enterprise runs between *people based forms* and *asset based forms*. This distinction is formally present in Civil Law countries, in which 'societies of people' ('societé des personnes', 'società di persone') are distinguished and regulated differently from 'societies of capital' ('società di capitali', 'societé des capitaux'). The partition between these two classes of legal forms is fundamental in terms of the nature of the firm constituted, since societies of people do not have juridical personality (as they are not distinguished from the physical persons constituting the society) while asset based societies do, protecting the firm from the liabilities and mobility of people, in addition to protecting the person from the liabilities of the firm.
The entire class of 'societies of capital', and some interesting hybrids between them and 'societies of people', provide different and increasing protections: from simple limited liability to very elaborate asset partitioning and shielding. The Corporate form - called 'share based/anonymous society' in most European countries (Società per Azioni, Sociètè Anonyme, Sociedad por Acciones) - is well analyzed in this respect : it allows a full separation between the firm as a set of dedicated assets and the particular investor who conferred the assets. Investors can be either individual or firms, their identity is of no formal relevance, investments investors are fully protected through limited liability, and the invested assets are fully 'partitioned' from the investors and from their identity, and 'shielded' from claims that pertain to the investors. Furthermore,
there are various types of firms that are hybrids between a society of capital and a society of people, for example: Limited Partnerships (called 'società in accomandita' or 'societè en commandite' etc, in Civil Law countries); Limited Liability Company (LLC) and Limited liability partnerships (LLP).

All these are firms, and they still do not cover the whole range of forms. For example the 'Cooperative Society' is also a type of firm. It admits both people-based and capital based variants, meaning that the partners can be either people or firms and other types of entity. As per the Statute of the European Cooperative Society, is a 'society' having a legal personality that can be formed either by people or by firms and other entities 'for satisfying any economic, social or cultural aspirations of members' and constitutionally characterized by 'collective ownership' and 'democratic governance'. What is distinctive about this type of society is that its internal governance structure is predetermined to be a democracy of *members*.

This overview leads to a fourth thesis, perhaps the one departing more radically from the usual views, on the nature of the firm as a democratic institution. Albeit the feature of democratic governance is typically associated to cooperatives and not to other forms of enterprise, it may be noticed that all forms of economic societies, hence all firms, are actually governed according to principles of democratic representation of partners, as it should be in any democratic constitutionally ordered legal system. Firms are not, or at least should not be, strange objects floating outside that order, worlds of power rather than right, islands of feudalism or dictatorship within sea of otherwise democratic and 'free' market and political relationships. The difference among different types of firms as societies lies in the type of actors entitled to be represented in the internal democracy and how. People partnerships are bound to be democracies of partners as persons. Corporations are constructed as share-based democracies, with the assembly of shareholders entitled to nominate governing bodies. This architecture of course does not exclude that shareholders may decide that they want the bodies to include elected or otherwise nominated representative of important input providers that are not granted shares (as in the German Mittbestimmung system) or that a significant portion of shares are granted to human capital providers (as in dot.com corporations).

Other types of asset-based societies, having the interesting asset partitioning features of corporations, but not linking votes and management nomination rights to shares, also exist or can be designed. Existing forms include Statutory Business Trusts (Hansman et al 2006) and Foundations (in which assets are partitioned and devoted to a mission, residual income is bound to be reinvested rather than distributed, and are governed by bodies representative of any parties bringing any type of resources deemed to be essential) . This leads to Thesis 4

Thesis 4*. The firm is a democratically governed economic society, as any (legally recognized) society or association is within constitutional democratic legal orders. Different forms of enterprise define principals and internal constitutions and decision procedures in different ways.*

Thesis 4 directly calls for an analysis of what kinds of resource commitment should entitle what type of actor to be principal and under what form of enterprise. The common view in economics is that any investment of resources that become a firm asset should give title to property rights, but that only financial and technical assets can be invested into firms (Shleifer and Vishny 1997; Grossman and Hart 1986). Human capital is considered to be 'inalianable' and not investible, as it can always be withdrawn. This thesis obviously leads to the conclusion that in all asset-based forms of enterprise, human capital providers can never be owners; and that the only case in which HC providers should have those rights, is a situation in which human knowledge is so essential and specific for any use of technical assets that it is efficient to assign property rights over those technical assets to the providers of complementary human assets (which remain property of people), like in a workers' cooperative (Hart and Moore 1990).

Grandori (2013b) argues that this view widely understates the amount and variety of PR that HC providers should be entitled to. The main reason or 'blockage' is the assumption that HC cannot be partitioned from people, an assumption dating back to Marx and never revised. The critical argument is that, paradoxically, that assumption is now blocking a recognition of the extent to which workers have or could become 'human capitalists' in modern economies: namely a recognition (and compensation) of the relevant irreversible investments of human and social capital they do make into firms. While there is a traditional component of HC that is unseparable from physical persons - such as energy, health and skill - there is also another component – of growing incidence and importance - that is partitionable from people: the intellectual and knowledge component (ideas, projects) of human capital, and part of the relational component (contacts) of social capital. The implication is that if those assets can be partitioned from people, they can be invested into partnerships and firms, even into asset-based types of firms as corporations; and that the investors of HC are thereby entitled to shares of property rights over the firm assets. This is precisely what occurs in knowledge intensive firms, where the provider(s) of a project may invest the idea and very little money, if any, and get the majority of shares; whereas the investors of million dollars usually enter with a minority position.
In studies of entrepreneurial start-ups, evidence is reported on the actual content of 'contracts of society' establishing new firms and accompanying

organizational right apportioning agreements[2] . They all show that the agreements involve a discriminating apportioning, in type and amount, of property rights so as to best motivate parties contributing different type of assets – human, technical and financial - to sustained and continued investment. Entrepreneurial firms that are largely based on human asset investments usually also employ a variety of mechanisms for 'locking-in' the person(s) of the project provider-entrepreneur for some time, in order to guarantee that the part of human competence that is not separable from the person is contributed (such a period of some years for the 'vesting of shares'). However, when members of the entrepreneurial team leave, they cash the stock but do not and cannot withdraw the invested part of their human capital. Rather than being easy to withdraw and sticky to the person, the knowledge component of HC is difficult to withdraw and rather sticky to any venture or partner to whom it has been communicated. Perhaps, Arrow's information paradox is the best guarantee, much more than any governance alchemy, that knowledge-based HC will not be withdrawn: once information is communicated it cannot be withdrawn. Hence, we arrived at releasing also the assumption of inalienability, non contractibility and non investibility of HC.

Thesis 5. *Human assets can not only be 'pooled' in people–based partnerships and societies, but can be invested 'into' firms whereby the investors are entitled to a share of property rights over the firm's assets proportional to the relative value of the contributed assets with respect to that of other assets.*

Thesis 6. *The Pareto-superior and Nash-superior assignment of rights among investors of different type of resources, is under most conditions a shared and discriminating assignment, not a unilateral assignment to one class of investors only.*

As already discussed, the classic argument against the governance of any entity by different constituencies has been that of supposedly high 'decision costs' (Hart 1995; Hansman 1996). We have already observed that the classic argument omits to consider what the benefit of variety for the quality of decision.

The structure of the problem is, therefore, a trade-off structure, much like in the problem of devising the decision right allocation that minimize decision process costs while maximizing representation of preferences – bringing usually to an intermediate majority rule being superior (Brennan

[2] The allocation of key residual and non residual decision rights through the distribution of key directive positions have also a legally recognized status in many EU systems, as 'by-laws', 'para-social agreements', i.e. more modifiable but formal granting of decision rights accompanying the contract of society establishing the firm.

and Buchanan 1985). Devising an optimal proprietary structure of the firm with multiple assets providers, all having a claim to asset ownership, is not a problem of choosing among those the one for whom it matter most. This is a sub-optimal solution, as it provides no incentive to invest to any other actor. Rather, as illustrated in all the cases discussed above, it is a hybrid or mixed arrangement with shares of ownership roughly proportional to the value of contributions that is likely to maximize the incentives to invest for everybody.

Thesis 7. *The individual firm can be explained as a particular case: it can be either asset-based or person based, with or without limited liability, but if it is a firm (and not just a self-employed person) a different legal entity is constituted and resources are committed as a pledge of responsibility toward society.*

The responsibility function of the enterprise contract, is key in Civil Law notion of a firm and is key for understanding why are there individual firms. By constituting a firm, even single entrepreneurs can undertake new risky ventures while being credibly responsible toward any other parties, the customers and the society more generally. The case of the individual firm, in our frame, is clarifying rather 'puzzling', as it used to be in new institutional economic theories of the firm, as Demsetz (1991) observed: a firm is constituted (and constituting a firm is even legally required) for conducting economic activities of any importance, precisely for guaranteeing a legally enforceable liability or responsibility toward third parties affected by the activity, where the service and goods provided are such as to entail those possible consequences. For example, a consultancy service may be provided by a physical person, without constituting an individual firm; but this is not the case where reliability and entrustment are implied, as in the purchase of financial services or of goods that should be used in consumption or in further production.

The case of individual firms using LLC or even the Corporate form is also understandable as a response to the need of protecting the invested assets from personal liabilities and unreliability, and not only the reverse. Many new born high-tech enterprise, in fact, in spite of being fully or quasi individual firms, adopt an asset-based type of legal form.

Thesis 8. *Firms do not need 'purposes' for being defined and it would be methodologically sounder not to define them in 'teleological' terms.*

The core epistemological reason for not defining firms or types of firms in terms of purposes, is that there is nothing less 'verifiable' and testable than purposes. A more reliable way of treating the issue of objectives is to refer

to what the structural and institutional mechanisms 'allow' or 'not allow' to pursue in different types of firms: some forms of enterprise allow the distribution of profits, other do not; some forms fix the content of 'missions' to be pursued, some do not. So, profit 'objectives', as any other subjective motive, are not intrinsic to the nature of the firm.

There are also other reasons for not defining the 'objective' of firms to be some version of profit maximization in particular.

The proposition that if firms behave 'as if' they were maximizing profits, then general equilibrium would obtain (in the long run), is valid under very particular conditions of perfect competition that seem to have mostly disappeared from the real economy. To transform the above proposition into the statement that an intrinsic objective of firms is to maximize profit in general is ill-founded (Vernon Smith, Nobel Lecture, 2000). To be sure, the existence of a positive return to economic activities is a useful indicator that what is offered by the firm has some use value for someone and that it covers its cost. Hence, to the extent that 'economic residual results' provide a sufficient 'statistics of value' and valid information on the sustainability of an activity they are useful; and they certainly provide a 'threshold' or acceptability level to be met: any economic activity should cover its costs or respect 'economic equilibrium' in that sense. This is true however for any economic entities, public or private, firms or not firms (as testified by the current nightmares about national states' 'spending reviews'). It's the meaning of 'economics' itself : 'aikos' and 'nomos', the sound 'governance' of the 'household', not to spend more than resources allow. However, as in the debate about the 'GDP' indicators for national economies, it is unlikely that one single economic parameter is a 'sufficient statistics', and a valid operationalization of any performance to be maximized in a world of any complexity. The same should go for any single performance indicator at the firm level, profit or other. A lot of what Merton would have called a 'trasposition of ends' (transformations of means and indicators into ends) lays behind this way of defining 'objectives'.

Thesis 9. *'Social responsibility' is not an 'objective' that may or may not be optionally added to 'enlarge' and 'enlighten' the objectives' structure of the firm. It is to a good extent an intrinsic function of the firm as an institution, in the sense that the more general element present in any 'contract of enterprise' is the responsibility toward any potentially affected third parties, even if not linked by specific contractual obligations; hence, toward society.*

It is now common to ask firms to be 'socially responsible', or to distinguish 'social entrepreneurship' from entrepreneurship in general. It may certainly be said that there are some firms that are more socially responsible, or more socially oriented, in that they define their actual strategies and structures in a way that gives more weigh to those principles than to others. However, this is no patent for firms to take the liberty of not being so at all. There is a basic extent to which 'all entrepreneurship is social' (Schramm 2010) and 'all firms are socially responsible'. This basic extent is given by the two basic functions of the firm (in general) as an institution: the function of committing resources for the conscious and deliberate discovery and adaptation of goods and services; and the function of guaranteeing that responsibility is taken toward third parties and society.

Actually, the modern firm, in all its form, may be seen more as institution for moderating the pursuit of profit and self-interest objectives, rather than its very home (Windolf 2004). The pursuit of those objectives does not really need that complex an institution: it has always been there, in mercantilist or even feudal economies. The 'conferred assets' constituting firms are pledges posted to guarantee that in the course of producing and selling goods and services, paying inputs and reinvesting or distributing gains, responsibility is taken.
If responsibility toward external and internal partners is core in firm-like contracts of all kind, there is no need for 'social responsibility' and 'stakeholder views' as 'optional' addictions, they are intrinsic to the (properly conceived) nature of the firm. Only if the firm is (mis)conceived as an 'object' (e.g. a 'collection of assets') that is 'owned' by a collection of individuals who have 'bought' those assets; then those 'addictions' and corrections are badly needed , because that kind of object-firm would be, and indeed is, a very ineffective institution.

Thesis 10. *The 'nature', or 'distinguishing feature' of the firm does not reside in planning, authority, or power; the governance regime and decision procedures within firms may range from completely centralized to completely decentralized.*

A resource committing constitutional contract does preserve the function of reducing transaction and production costs with respect to market spot contracting under uncertainty, but the features of central planning or authority relation are not necessary for realizing those advantages. It is true that asset pooling contracts need be complemented (and completed) by procedures specifying decision and reward rights; but those procedures can range from completely centralized to completely decentralized, from authority to co-determination and self-determination (Simon 1951).

The view of the firm as a planned and centralized economy is rooted in too old a debate and a concern: the state versus market, plans versus prices debate. Actually, a XIX century idea and an early XX century obsession. It seems that in the XXI century we might have the courage of going beyond the Coasian and Marxian dichotomy between plans and prices, beyond the view that there are only two basic coordination alternatives: 'spontaneous' coordination without communication seen as the decentralized option, in turn identified with markets; and 'conscious' coordination seen as necessarily centralized and based on authority and planning.

Conscious direction is in fact different from central direction, and central decision making is different form planned decision making. The logically consistent dimensions behind the classic distinction between 'spontaneous' and 'decentralized' order, and 'deliberate' and 'centralized' order, are more than one, and they have different capacities of governing uncertainty. Coordination may 'conscious' and deliberate but realized in different ways: 'plans and programmes' have weaker capacity of governing uncertainty than ad hoc decision making; and mutual adjustment, horizontal communication and ad hoc decision making have stronger capacity of governing uncertainty than centralized decision making. After all, if 'planned and centralized coordination' should be expected to fail in the coordination of large economic systems for knowledge and information processing reasons (Hayek 1945), this knowledge governance principle should hold irrespectively of whether those systems are 'planning and command national economies', or 'planning and command multinational firm economies'…

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