

The Enterprise as Community: Firms, Towns, and Universities

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Extended Abstract

At a very broad level, firms and municipalities share a number of features. Among other things, both are self-governing entities that make investments and purchase, produce, and distribute goods and services, sometimes, but not always, for an explicit price. Yet towns and firms are perceived as being governed differently: Whereas municipalities are governed democratically, the archetypal firm is viewed as an autocracy. The sharp contrast conventionally drawn between “autocratic” firms and more “democratic” entities like towns and cooperatives is misleading, however. As Henry Hansmann (1988) has pointed out, traditional business corporations are, in essence, lender cooperatives, organizations over which investors exercise democratic control. From this perspective, the issue becomes less one of whether communities or enterprises are democratically governed but who gets to vote. Because some means of arriving at collective decisions (i.e., voting rules) will be needed regardless of which group of patrons is in charge (the exception being single-owner enterprises such as sole proprietorships), whether it is better to assign control to one set of patrons instead of another – or possibly to share control among two or more patron classes – will depend, in part, on the benefits and limitations of collective decision making and how those vary with the attributes of patrons and transactions. In this analysis, the predominance of investor democracy among commercial enterprises is the result of generally greater hazards of contracting for capital than with input suppliers, workers, and customers combined with arguably greater difficulties of the latter three groups in exercising effective collective control (Hansmann 1988: 277–284, 301; Williamson 1987).

Following the proceeding logic, municipalities are no longer so clearly more democratic than business corporations (cf. Grandori). After all, municipal employees have no more right, by virtue of their employment alone, to vote in municipal elections or on local referenda than do company employees to vote in board elections or on bylaw amendments. Much as corporations restrict voting rights to shareholders, cities restrict local voting rights to citizens, typically individuals who satisfy particular residency requirements. In principle, this need not be the case, however; voting rights could, at least theoretically, be based on criteria other than residency: land ownership, birth, or employment, for example. Indeed, municipalities need not be democratic at all. Cities and towns could be (as they have been at various times and locations) operated as departments of national (or provincial) governments by administrators appointed by the central (possibly though not necessarily democratically elected) government. Alternatively, residential communities might be run as for-profit enterprises that contract with residents, as do landlord-owned apartment complexes, some of which easily exceed many towns and villages in population. In between are communities that combine private ownership and democratic governance: residential cooperatives, in which tenants collectively own and manage rental properties, and condominiums and gated communities, in which commercial firms own and

manage common areas exterior to owner-occupied dwellings (Barzel and Sass, 1990; Hansmann 1991).

Finally, there exists at least one important sector of the economy in which democratic governance has played a significant role for over a century industry: American higher education. The United States is home to more than 2000 four-year colleges and universities, approximately one-third of which are public (state-owned) institutions and two-thirds are private, mostly non-profit institutions. Although these institutions resemble firms in offering services for a price and compete with each other in both input and output markets, faculty in American colleges and universities have authority, either directly or through representative bodies, over a range of important decisions (Masten, 1996). And despite widespread criticism of faculty governance, faculty authority has been growing over time. Understanding the role of faculty governance in universities and the reasons for its variation among decisions and institutions and over time can offer insights into the purposes and limitations of democratic governance in other settings.