Paradox in Project-Based Enterprise: What Paradox?

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A recent article in the California Management Review [Robert J. DeFillippi and Michael B. Arthur, "Paradox in Project-Based Enterprise: The Case of Film Making," CMR, 40/2 (Winter 1998): 125-139.] portrays independent film companies (and similar project-based enterprises) as a paradox for contemporary strategic management theory. Specifically, DeFillippi and Arthur make the observation that "in the film making example, no capital investments convert to fixed assets, no revenues are retained, no structure or positions are permanent, and no returns to learning accrue to future projects." They find it paradoxical that temporary enterprises could sustain a permanent industry in which "even the most successful organizations are organized with their future dissolution in mind." The authors raise three key questions in this context:

- How is economic value created and appropriated in project based enterprises?
- How can a project-based enterprise accumulate its core competencies when it rents all its human capital?
- How can project-based enterprises create competitive advantage when its knowledge-based resources are embodied in highly mobile project participants?

We intend to use contemporary strategic management theory to answer these questions, drawing on industrial organization, resource-based theory, and
organizational economics. While we concede that strategic management has tended to focus on the issues of large corporations, we believe that strategy theory also covers the case of temporary or project-based organizations.

**Industrial Organization**

Despite the importance that DeFillippi and Arthur place on the role of independent producers in the motion picture industry, independent film companies only flourish because the major financier-distributors allow them to. The relative bargaining power in the industry lies, with a few exceptions discussed below, with the major studios and not with the independent film producers. The independent companies remain dependent on the major studios for financing, distribution, marketing, and a host of production and post-production services.

Given their financial strength and strategic position in the value chain (between producers and exhibitors), it would take little effort for the major studios to re-enter film production. Prior to 1948, the major studios were fully integrated into production, distribution, and exhibition. Thus, the issue is not, as DeFillippi and Arthur would have us believe, about how the independents sustain the motion picture industry but rather why the major studios continue to tolerate independent producers. Just as we don't attribute the durability of the banking industry to the attributes of the contractors that manage the banks' computing operations, nor should we fall into the trap of attributing the durability of the motion picture industry to the characteristics of the firms engaged in independent film production.

Strategic management has an ample literature to support the decision by the major studios to outsource production. The demise of the block booking system and the rise of television led to major uncertainty in the demand for motion pictures. Since at least 1980, strategic management theorists working in the industrial organization tradition (such as Michael Porter and Kathryn Harrigan) have argued that demand uncertainty often results in de-integration across the value chain. More recently, these theories have been confirmed by a number of empirical studies.

In the movie industry, de-integration had the effect of buffering the core distribution function from demand fluctuations. This was achieved by transferring demand risk to third parties such as independent film producers and cinema operators. The success of this strategy is evident when we consider that distribution revenues rose by 20% despite a 19% decline in box office revenues between 1947 and 1955. As a result, studios were able to maintain their pre-war level of profitability.

While industrial organization theory predicts de-integration as a response to demand uncertainty, it is less successful in explaining the emergence of temporary, or project-based, enterprises. Why did the exhibition business rapidly consolidate into a few major chains following divestiture while the production business remained fragmented?
Resource-Based Theory

DeFillippi and Arthur evocatively describe the way in which a production company exists to make one film: a single project that has its vision, strategy, and budget approved in advance. At the end of the project, the production team is disbanded. If they are lucky, members of the production team will be reunited on new film projects. A team member’s chance of further work is a function of his or her social contacts and reputation (often enhanced through industry awards). DeFillippi and Arthur see this method of organization as a challenge for strategic management theory because the lack of continuity in film production makes it difficult (if not impossible) to develop and leverage core competencies. They claim that even the most successful independent production companies are formed with their dissolution in mind. Thus, core competencies are not retained and the notion of a sustainable competitive advantage loses its meaning.

However, the reality is that most production companies fail to survive because they fail to make money for their investors. The motion picture industry is a “market for hits.” Television viewers must be lured from their homes into the cinemas by the promise of something special. Although blockbuster movies with innovative special effects cost more to make, they also generate higher box office revenues and higher margins than smaller movies. Unfortunately, the formula for generating a hit movie is notoriously elusive and is, in itself, a reflection of the extreme demand uncertainty in the motion picture business. Of course, success is as fleeting as it elusive and this holds the key to understanding the role of core competencies in the motion picture industry.

Core competencies are only valuable if they generate superior economic value for their owners over time. Resource-based theory tells us that the more valuable resources (or competencies) are rare, difficult to copy, and durable. However, the value of a given movie is difficult to estimate in advance. Although the team might be composed of highly talented and creative individuals, it is the ability of a team to create value at the box office that is the only test for investors. A team that doesn’t create value needs to be changed or replaced.

Even where a production team is successful, investors will still want to know whether the success can be replicated. If, in the investor’s opinion, it cannot be reproduced then there is little point in keeping the team intact. Only when a team has a good chance of replicating its first success will there be hope for long-term survival. Examples include the Lethal Weapon series, Rocky I-V, and Disney animations. In each case, there is an incentive to keep the principal members of the team in a permanent or semi-permanent relationship. Most of the time, however, production teams are not very durable because consumer tastes change quickly. This was less of a problem in the old pre-war studio system as there were few close substitutes for cinema-going and block booking of movies in studio-controlled cinemas (often before they were produced) ensured a captive audience.
DeFillippi and Arthur ask, "How is economic value created in project-based enterprises?" The answer is through flexibility. Project-based enterprises enable experimentation—the ability to combine resources in novel ways to try and create a hit movie (and ultimately profit or positive economic value for investors). This is a direct response to extreme demand uncertainty in the movie industry where consumer tastes shift rapidly and unpredictably. Real (or strategic) options theory predicts that uncertainty should be met with flexibility. Project-based enterprises are simply one example of using flexibility to counter uncertainty. Note that it is not the most extreme example. Spot contracts enable buyers and sellers to switch to new parties after each transaction. However, the completion of a film project represents a convenient place to evaluate the performance of a team (or resource bundle).

**Organizational Economics**

It has traditionally been assumed that outsourcing production was a cost minimization strategy. Supposedly, the fall in demand after the war precipitated the need for cutbacks in studio expenditure. Independents were able to avoid the high fixed costs of studio production by leasing facilities and staff as required rather than maintaining a permanent work forces and a complement of physical assets. Balio, quoting from a *Business Week* article, states that the average cost of an independent film in 1950 was $800,000 versus $1,800,000 for a studio. These figures have been widely reproduced in other sources.

However, a recent comprehensive study of production costs at Warner Brothers between 1946 and 1965 found no significant difference between the costs of independent and studio-produced films. In fact, the average cost of a film increased markedly over the period. A key finding was that both the box office revenue and profits of independently produced films showed greater variability, and hence greater risk, than studio-produced films. This finding supports our argument that outsourcing production provided greater flexibility in the face of uncertainty. It also highlights one of the weaknesses of independent film production.

Once a given team has made a successful movie, it places the principals (actors, directors, writers) in a strong bargaining position to appropriate the gains from future projects. Under the old studio system, actors were placed on long-term contracts guaranteeing a fixed salary with limited bonus opportunities. Contract salaries were typically modest because actors were signed early in their career before their drawing power was established. Thus, when a movie with a well-known star (such as Bogart or Gable) performed well at the box office, the studio tended to capture the lion’s share of the star’s value added.

This situation has been reversed in independent film production. Top actors with proven drawing power are able to command major salaries and gross participation in film rentals. The classic case is the sequel. Mel Gibson received $20 million in salary and 20% of the gross for appearing in *Lethal Weapon 4*. 
Despite doing good business, the film barely broke even. Similarly, the sequel to *Men In Black* has been shelved because the principals reportedly demanded a total of $50 million in salary and 50% of gross.\textsuperscript{11}

Theorists in strategic management are well acquainted with this effect. Transaction cost economics\textsuperscript{12} predicts that any firm whose value creation is heavily dependent on a scarce resource provided by a third party is likely to see much of that value-added appropriated by the third party (an action aptly referred to as "holdup" in the literature). In the motion picture example, successful principals are able to extract better deals on future projects. They are literally holding-up the investors and major distributors. Transaction cost economics would argue that long-term contracts are the only solution to minimizing holdup in the motion picture industry, as human capital cannot be owned. As we have seen, this approach was used in the pre-war studio system, but fell out of favor after the war.

DeFillippi and Arthur ask, "How can a project-based enterprise accumulate its core competencies when it rents all its human capital?" From the previous discussion it is clear that a project-based enterprise cannot accumulate core competencies. In the past, a major studio was able to appropriate much of the value from its creative talent by utilizing long-term contracts. However, contracting on a film-by-film basis allows knowledge to accrue to individuals who are then able to turn around and sell their services to the highest bidder. Clearly, the benefits of flexibility must still outweigh the costs of holdup otherwise the studios would have re-integrated into production. However, it is also possible that production personnel are developing more bargaining power and are resisting such moves.

This leads us to the final question: "How can project-based enterprises create [a sustainable] competitive advantage when its knowledge-based resources are embodied in highly mobile project participants?" Once again, project-based enterprises generally cannot create a competitive advantage because abnormal profits will be appropriated by input-providers (i.e., actors, directors, writers).

There are, however, two cases where project-based enterprises can deliver large profits under the current system of production. The first case is where a producer is able to assemble the services of the production team for a lower cost than the producer's income from the movie (a feat that can only be achieved through superior insight or luck or both).\textsuperscript{13} Value creation through superior insight becomes harder as stars become more popular because it gets easier from them to value the worth of their contribution and engage in effective holdup. This would appear to favor a strategy of making movies with relative unknowns with the hope of creating a "sleeper." Unfortunately, low budget hits are relatively rare because box office performance is highly correlated with production costs.\textsuperscript{14} An alternative is to book a star of a series of movies at a fixed price per movie to restrict opportunism. This is a risky strategy if the star fails at the box office in the first or second movie and several movies remain to be produced.
The second way of creating a competitive advantage is if one of the principals actually creates the enterprise (such as Steven Spielberg with Dreamworks or George Lucas with Lucasfilms). Then, the principal as owner receives the value of his or her services in the form of profit (and thus appears more profitable than other firms). However, in this case, the competitive advantage might be more durable because the principal is the firm. Spielberg has little incentive to work for the competition or hold-up his own company. There are also potential benefits if talented actors are willing to work for a well-known director or producer at a reduced rate or the combination of the two results in better box office revenues. These factors also have the effect of making the firm more profitable.

Conclusion

Project-based enterprises are a double-edged sword. On the one hand, they allow greater flexibility in an uncertain market by enabling rapid experimentation with different combinations of creative talent. However, once a successful (and replicable) combination of talent has been found, there is a real risk that the talent will appropriate the value of future projects in the form of higher wages and profit participation. Although outsourcing production was originally thought to reduce production costs, it has recently been shown that costs increased markedly in the period following the breakup of the studio system.

DeFillippi and Arthur ask us to consider the rise of project-based enterprises in the motion picture industry as a paradox for strategic management theory. We oppose this point of view and argue that a combination of theories originally developed in the 1970s and 1980s is quite capable of explaining the existence and persistence of this unusual organizational form. However, this argument in no way diminishes, nor is intended to diminish, the insights of DeFillippi and Arthur into the characteristics and behavior of workers in project-based enterprises. We agree that this organizational form will become more prevalent in future years. Managers need to be prepared for the challenges this will represent.

Notes

2. Ibid., p. 128.
Paradox Revisited: A Reply to Phelan and Lewis

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In their response to our CMR article “Paradox in Project-Based Enterprise: The Case of Film Making,” Phelan and Lewin assert that strategy theory from the 1970s and 1980s is sufficient to explain the existence and persistence of project-based enterprises (temporary, project-focused organizations) as exemplified by the independent film making production company. The authors conclude that there is no paradox between the existence and persistence of these forms of enterprise and long-standing axioms of strategy theory.

In reply to their critique, let us begin by defining paradox: “apparent contradiction, hiding deeper relationships between the elements in tension.” Phelan and Lewin’s critique focuses on the apparent contradictions while neglecting several of the deeper relations suggested in our paper. In illuminating these deeper relations, it is necessary to distinguish between empirical and interpretive issues specific to the film industry and more generic concerns regarding project-based enterprise and its implications for strategy theory.

With respect to the film industry, Phelan and Lewin assert that independent film companies flourish because the major financier-distributors allow it. For Phelan and Lewin, the issue is why major studios continue to tolerate independent producers. Their initial explanation is that major Hollywood studios have de-integrated across their value chain in order to buffer their core distribution function from demand fluctuations. Hence, independent film companies are a strategic outsourcing response by Hollywood studios to demand uncertainty.

This explanation nicely harnesses industrial organization-based strategy theory, but it is an incomplete account of independent film making’s genesis. A
review of the history of early film making suggests that independent film companies arose in part because successful film actors (e.g., Charlie Chaplin, Mary Pickford) sought more creative freedom and ownership rights to the fruits of their artistic labor. The studios vigorously opposed the creation of independent film companies. Historical evidence indicates that the genesis of independent film companies represents a more autonomous, entrepreneurial impulse by owners of scarce and valuable human capital than Phelan and Lewin’s interpretation of Hollywood studios’ strategic outsourcing. Moreover, several contemporary accounts of film making strongly suggest that Hollywood studios are dependent upon highly talented but autonomous actors, producers, and directors for insuring the success of large budget film projects.

More broadly, there is a growing literature suggesting that vertical disintegration is a permanent shift in the knowledge-based economy and not a temporary response to demand uncertainty. Prominent examples include the automobile industry, where outsourcing and distributed innovation and production have become a dominant practice. A second example is the network-driven cluster of large and small, permanent and temporary high-tech enterprises found in Silicon Valley. In both these examples, interpersonal and interfirm networking and the leveraging of social capital promote a more disaggregated production system.

The rise of the Internet is credited with lowering the transaction costs for collaboration among separate specialist firms. Also, the increasing rate of new knowledge creation and speed of commercialization have permanently deconstructed the value chain. In summary, current conditions and trends in the knowledge-intensive “new economy” favor fast and flexible forms of disaggregated value chain production. It is our contention that the project-based enterprise is a fast and flexible organizational form that can nurture both face-to-face and virtual collaboration among specialist project participants.

Phelan and Lewin next enlist resource-based theory to account for the emergence of project-based enterprises in film making. They argue that most production companies fail to survive because they fail to make money for their investors. Their use of resource-based theory comes closer to the mark in the authors’ appreciation that project-based enterprises enable more flexible experimentation with novel combinations of competencies than might be the case for larger, more hierarchic film making firms such as Hollywood studios. Moreover, we have no disagreement with the assertion that (demand) uncertainty should be met with flexibility as suggested by strategic options theory.

Our concern is with Phelan and Lewin’s assertion that the development of project options lies exclusively in the hands of large-scale resource suppliers and investors. The recent success of The Blair Witch Project is illustrative of how low-budget films financed outside the Hollywood film community can and do become box-office successes. Perhaps a more plausible interpretation is that Hollywood jumps on the bandwagon and quickly offers financing for larger budgeted imitative projects. This pattern of large-firm financing of innovative
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start-ups is similar to the relationship between pharmaceutical companies and innovative biotechnology enterprises. What both industries illustrate is a mutual symbiosis and interdependence between large and small, permanent and temporary enterprises.

More generally, evidence abounds that the development of creative product and service options is in part due to the initiatives of unique individuals and unique networks or communities mobilized by a shared vision. In many realms of knowledge and design-intensive activities (e.g., software, Internet services), new services arise without the agency of a central coordinating resource supplier. An excellent example from outside the film industry is the meteoric rise of the Linux operating system, which can be traced to the part-time, after-work enterprise of 21-year-old computer science student Linus Torvalds, and the subsequent creation of a Linux community of programmers, testers, and adopters. The Linux community of volunteer, ad hoc participants has fostered the rapid development and evolution of the Linux software without firm-centric product development budgets, staffing, or market and distribution support. Linux is an exemplar of a network and community phenomenon often ignored within firm-centric strategy perspectives.

A stream of theory and research on knowledge management suggests that technical knowledge and its sources are not necessarily contained within organizational boundaries but instead reside within the tacit knowledge and practices of professionally and occupationally based communities of practice. These communities interpenetrate the boundaries of large and small organizations and of temporary and durable organizations. However, it is the mobility of human capital and its attendant tacit knowledge across these boundaries that are responsible for the creation of flexible forms of organizing, including the project-based enterprise form.

Phelan and Lewin next employ organizational economics theory and cite empirical research on the film industry of the 1950s and 1960s to assert that independent film production in particular—and by implication, project-based enterprise in general—suffer from substantial risks of either low performance or hold-up. The risk of hold-up is that principals from successful prior projects will be able to extract better deals on future projects, literally holding-up the investors and major distributors. These arguments seem to suggest that project-based enterprises are damned if they don’t produce profits (too risky) and damned if they do produce profits (hold-up).

On the matter of financial performance risk, the evidence for film making is equivocal. While film revenues and profits are more variable for independent film producers, their average revenues and margins are higher than studio-produced films. Hence, independent film production seems to correspond to the high risk, high return portion of portfolio investments where creativity, innovation, and resource flexibility favors the project-based enterprise form.
Phelan and Lewin's hold-up argument may just as easily be directed at the major Hollywood studios. A review of film industry history suggests that studios have frequently engaged in creative accounting practices to promote the fiction that film projects produced no profit surplus to return to those actors and directors whose compensation included profit-sharing agreements. Hence, the hold-up problem ex ante may be viewed quite differently ex post. Long-term contracts (de facto internalization of scarce and valuable human capital) are not the only solution to the hold-up problem.

Project-based enterprises—whether in film making, construction, software development, or Internet services—depend upon an array of normative governance mechanisms that can reduce the risks of hold-up by either the producer or investor in the project. Recent theorizing on relational governance suggests that relational contracts and other supportive mechanisms operate in industries most likely to embrace project-based enterprise. Therefore, it seems that further attention by strategy theory to the role of network-based governance in temporary, project-based enterprises would complement extant work on hierarchic and market-based governance. Some strategy work in this direction is now emerging.

We are in general agreement with Phelan and Lewin that a project-based enterprise cannot accumulate core competencies. It is a central argument in our original CMR article that core competencies for the project are embodied in the human and social capital of the project participants. We are heartened that recent work has supported our view of the project team as a locus for knowledge capital accumulation and learning.

We are also in agreement with Phelan and Lewin's insight that project-based enterprises may on occasion spawn new, more durable forms of enterprise, such as Steven Spielberg's DreamWorks or George Lucas's Lucasfilms. We have always viewed project-based enterprise as an organizational form conducive to the formation of new firms. However, we believe that such new enterprise formation should not necessarily be evaluated on the basis of the permanence of the enterprise. Economic value may lie as much in the proliferation of a wide variety of short-lived organizations that are constantly replaced. Such organizations may fit their immediate environment far better than long-lived organizations whose fitness is in constant need of adjustment to rapidly changing circumstances. For example, many of the early entrepreneurial firms in Internet-based services have succumbed to market forces. However, they contributed to the rapid exploration of alternative models of web-based commerce that successor firms could exploit.

In summary, project-based enterprise represents a flexible, temporary form for organizing human and social capital. Such temporary enterprises are supported by some combination of geographic proximity, network ties from prior associations, and by electronic and web infrastructure linkages.
drivers in these project-based enterprises are the career aspirations and competency accumulation practices of project participants, who leverage and extend their human and social capital. Each project becomes a learning episode for each participant and for their respective industry and occupational communities.

The central thrust of our original CMR article is to suggest that strategy theory suffers from a disproportionate focus on the long-lived firm. Our modest ambition is to encourage strategy theory to extend its focus to include temporary organizational forms such as the project-based enterprise. We thank Phelan and Lewin for their thoughtful observations and for the opportunity to engage in constructive debate. We further ask our strategy colleagues to look beyond their firm-centric perspectives. Project-based enterprises, and the project-based communities and careers of their participants, are significant contributors to the emerging knowledge-based, networked economy.

Notes


The New Meaning of Corporate Social Responsibility: 
A Reply to Reich

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In an address to students and faculty at the Haas School of Business, University of California at Berkeley, on October 29, 1997, Robert B. Reich, professor of social and economic policy at Brandeis University, presented his proposal for “the new meaning of corporate social responsibility.” [Robert B. Reich, “The New Meaning of Corporate Social Responsibility,” CMR, 40/2 (Winter 1998): 8-17.] The former Secretary of Labor has discussed and debated this topic in various media and forums—usually as it related to the corporation’s responsibility to employees and local communities impacted by corporate restructuring, downsizing, and globalization of the economy. But in this lecture, sponsored by the Peterson Program in Business Ethics, Professor Reich unveiled a radical challenge to the American business community.

The gist of Reich’s proposal is as follows: Through the public policy process, society has ceded the corporation responsibility for maximizing investor returns and improving national economic growth and allocative efficiency. But, according to Professor Reich, the corporation has no moral or legal authority to influence the public policy process; society defines the firm’s responsibility to other stakeholders. Under Reich’s new “social contract,” the corporation is granted a “micro-social responsibility” to maximize shareholder profits, but in return, “the metasocial responsibility of the corporation, then, is to respect the political process by staying out of it.” The corporation must therefore respect boundaries between laws established to govern its fiduciary responsibilities and those regulating its social responsibilities to society.

At first reading, Professor Reich’s proposal appears to be a “win-win” situation for business and society. Business gets to concentrate resources solely on its economic mission (shareholder satisfaction), while government regulates (without corporate influence) the business community for the benefit of the greater society. It should be noted, however, that Professor Reich believes that “companies have no independent moral or legal authority [emphasis added] to use their resources to influence the creation of laws defining their responsibilities to stakeholders other than investors.” This in itself is a dubious proposition, since the authority for corporations to actively influence government through the democratic process has been long established in legal theory. Moreover, the moral authority to engage in the political process is not challenged by shareholders at annual board meetings or by the general citizenry, where there is little grassroots support for legislation generally banning corporate political activity.

Why not simply pass legislation sharply limiting this “immoral and illegal” corporate political activity? Reich believes that “free-rider problems” are the culprit—and not the lack of the aforementioned legal authority, shareholder
concerns, or general political consensus—in this solution. His example, of tax abatement awarded to one company being viewed as a competitive disadvantage to others, is an accurate one. However, there are other examples of tax deductions or credits which are offered to qualifying classes of businesses or industries. There are certainly free rider problems associated with the corporate and industry political activity necessary to legislate these types of subsidies. But the “carrying costs” associated with lobbying efforts and political campaign contributions are readily borne by participants. Given that under the Reich proposal there are no laws and regulations to constrain corporate political activity and only a self-regulation regime voluntarily entered, what is there to prevent a corporation from becoming actively involved in the political process? While legislators and government officials may refuse to entertain direct lobbying by corporate representatives, there are various indirect forms of political influence that a company or group of “renegades” could embrace, e.g., issue advocacy media campaigns, financial support of nonprofit issue advocacy groups, etc.

Professor Reich is concerned that “the voices of stakeholders other than shareholders are fully heard and considered.” But what of the many firms which actively embrace stakeholders in their corporate mission statements and account for their impacts on stakeholders in annual reports? How does one account for the over 800 corporate members of the San Francisco-based Business for Social Responsibility who recognize that “a company’s goals, missions, and policies must take into account this entire range of constituencies.” And what of the $8.2 billion in contributions that corporations made to American charities in 1997? How many firms can discount internal and external constituencies—such as employees, creditors, suppliers, and the local community—in their strategic planning process? Corporations today are more actively involved in society than at any other time in American history. This societal involvement has not stymied American business from creating the most powerful economy in the world. On the contrary, American business responds to stakeholder pressures much faster than if it solely relied on government applying “one-size-fits-all” regulatory approaches to society’s expectations.

What would be the major benefit of Professor Reich’s proposal? Perhaps a reduction in what the former Labor Secretary refers to as “federal aid to dependent corporations.” This “corporate welfare” (a term that Secretary Reich coined several years ago), consisting of tax and spending subsidies to American business, costs taxpayers annually tens of billions of dollars. While there are ongoing bipartisan efforts (e.g., Stop Corporate Welfare) to terminate what Professor Reich and many others believe is inappropriate federal government involvement in the workings of the U.S. economy, the results of these efforts have met with limited success. True, removing corporations from active involvement in the political process would likely have a significant impact on reducing levels of tax and spending subsidies. But there are less extreme measures of reducing “excessive” corporate influence on government that could be instituted. Some suggested remedies include: enacting legislation lowering limits on “soft money”
Contributions; providing widespread disclosure and access to information related
to corporate political contributions; and applying benefit-cost analysis of tax and
spending subsidies. A more zealous enforcement of existing campaign finance
laws would also provide a strong deterrent to those officeholders, political orga-
nizations, and corporations contemplating violating contribution limits or engag-
ing in illegal influence peddling.

Professor Reich concludes his lecture with this dire warning: "Corpora-
tions must forbear from politics, or they are sure to invite, eventually, the politi-
cization of the corporation." But the 20th century ascendancy of the American
Corporation cannot be truly understood without recognizing the inextricable
linkage between politics and markets. The primacy of the corporation's eco-
nomic mission remains; however, the nonmarket environment is now one of
active exchange between the firm and stakeholders. Professor Reich, the "politi-
cization of the corporation" has arrived.
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