Can Firms Act Morally?

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The firm is a critical actor in the formation of a new moral political economy, but firm structure, culture, and profits can be an obstacle to change. The case of the American technology industry demonstrates the limits of relying on firms to change from within. The widespread practice of awarding stock ties white-collar compensation to corporate performance and curtails employee activism. The high-tech venture capital model measures success using rapid return on investment and acquisition of market share. Corporate governance practices and dual-class shares give founder-CEOs outsized control and entrench existing business models, even when they have damaging downstream consequences. The trajectory of these purportedly purpose-driven companies indicates that, as in the past, regulation may be the most effective path to meaningful corporate reform.

What is the moral purpose of the corporation? In 1960, Silicon Valley business leader David Packard had a ready answer. "I think many people assume, wrongly, that a company exists simply to make money," the Hewlett-Packard cofounder told his management trainees. "While this is an important result of a company's existence, we have to go deeper to find the real reasons for our being."[1]

Two decades later, Northern California's computer makers sounded similarly high-minded. "Tandem is a *society* in which everybody is important," declared entrepreneur James Treybig. As Apple prepared to go public in late 1980, cofounder Steve Jobs pitched his company as a passion-driven venture devoted to "building tools that amplify human ability."[2]

Picking up the baton at the turn of the millennium came two computer science graduate students turned entrepreneurs, Sergey Brin and Larry Page. Like Packard, Treybig, and Jobs before them, the Google cofounders evangelized a kinder and gentler capitalism. Not too long after incorporation, Brin and Page published Google's corporate philosophy online, titling it "Ten Things We Know To Be True." Number six: "You can make money without doing evil."[3]

In her powerfully argued contribution to this volume, Rebecca Henderson rightly identifies the firm as a critical actor in the formation of a new moral political economy.[4] Both her discussion and Colin Meyer's response emphasize

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how much depends on corporations turning away from their half-century of worship at the altar of shareholder value and embracing an interdependent, systemic model that promotes human and planetary flourishing. I agree that such change is foundational, and that the "moral firm" does not have to be an oxymoron.

The case of the American technology industry, however, reveals tensions inherent in calling for firms to change from within. Here are companies that now are among the most important and influential in the world, and that for decades have been presenting their corporate purposes and practices as both value-added and values-driven. Such efforts were more than public-relations spin. They were a conscious attempt by entrepreneurs and investors to overcome what they understood to be structural and moral failures of the corporation.

Midcentury pioneers like Packard saw the path to a better firm through abandonment of corner offices and *Organization Man*-style management structures, cementing employee solidarity through stock options rather than unionization, and transposing the egalitarian creativity of the engineering lab into an ideas-driven corporation.[5] Baby Boomers like Jobs embedded the values of the New Left and "Me" Generation into corporate organization and practice, keeping their hair long and flying pirate flags above product development labs. Dispirited by 1990s corporate behemoths who kept software behind proprietary walls and chose competition over collaboration, Gen Xers like Brin and Page foregrounded transparency and openness in corporate products and practices.[6]

In the early twenty-first century, workplace design and employee amenities helped convince millennial recruits that they could live their values and earn corporate salaries at the same time. Packard's call to "go deeper" echoed across six decades as firms built on-site yoga studios and hired "chief mindfulness officers." Sociologist Carolyn Chen aptly labels this approach "corporate maternalism," providing physical and spiritual care in service of the relentless pace that tech work demands.[7]

Although academic researchers sounded early alarms, tech's sunny alt-capitalist vision went largely unchallenged by American lawmakers and the business media until the mid-2010s, when negative downstream effects of the platform economy became too great to ignore. Tech's newly energized critics began to realize that its firms were not that different after all. Delivering value to shareholders remained the preeminent corporate purpose, and on that metric, the industry emphatically delivered. By the end of 2021, the combined market value of the six largest tech-driven companies (Amazon, Apple, Facebook/Meta, Google, Microsoft, and Tesla) was $11 trillion, making up more than 25 percent of the value of the entire S&P 500.[8]

The current tech critique ought to create space for the kinds of interventions Henderson identifies: pressure from discontented employee stakeholders, demands by purpose-driven investors, changes to corporate governance, and a firm commitment to advancing prosocial and prodemocratic policy. Yet the structure and culture of tech firms can present mighty obstacles. These constraints stem both from tech's wildly profitable present and also, ironically, from its purpose-driven past.

First, *employees are often shareholders as well as stakeholders*. The practice of bestowing stock awards remains a standard feature of Silicon Valley white-collar employment. While the hit rate for venture-backed startups means that most options will eventually be worth little or nothing, they are powerful tools for recruitment and retention. Options keep payroll costs low for early-stage firms. In public companies, such "golden handcuffs" keep peripatetic employees from leaving until they are fully vested.

Tying compensation to stock price gives employees an interest in maintaining corporate profits; that, in fact, was the model's original intent. This has successfully contained white-collar activism and unionization efforts until quite recently, when whistleblowing and organizing drives – including the 2021 formation of the Alphabet Workers Union – revealed cracks in the model. Nonetheless, employee activists remain a distinct minority within a global white-collar tech workforce.

A market correction, such as the one that began in 2022, that reduces the financial upside of tech employment could rebalance this tension. Yet even in downturns, stock options remain highly desirable and expected perks. As stock awards have become a common feature of white-collar work in sectors beyond tech, we must grapple with the limits of employee advocacy when market performance plays a significant role in compensation.

But there is another consequential and potentially transformative recent development: activism among tech's blue-collar ranks. These are workers and contractors who, notably, do not enjoy stock awards or other compensation tied to corporate performance.

Like a large iceberg, the visible tops of tech firms are kept afloat by the great submerged mass of blue-collar labor, and the sector has a long history of efforts at blue-collar unionization that failed due to both fierce employer opposition and political disempowerment of a disproportionately minority and female workforce. The industry's recent growth has significantly swelled its blue-collar ranks and made contingent workers much more visible.

The uneven success of recent union drives, however, shows that large tech companies are willing to spend whatever it takes to protect a highly efficient and lucrative business model that, among other things, relies on the ability to quickly upsize and downsize. That corporate resistance, as well as the challenges inherent in organizing a part-time, rapidly cycling workforce, indicates that change will require more than worker activism alone.

A second challenge is *a venture capital model that encourages rapid growth and accelerated market exits*. You do not have to travel far along Sand Hill Road to find a venture capitalist (VC) calling themselves a "purpose-driven" investor. Like Henderson, these investors define purpose as something greater than making money. Somewhat paradoxically, they see moneymaking as a means to that greater end.

This philosophy has its maximalist expression in the words and deeds of Peter Thiel, the proudly contrarian billionaire who is one of the Valley's more consequential twenty-first-century investors. The firm's path to higher purpose, Thiel wrote in his 2014 entrepreneurial handbook *Zero to One*, is to create a new market and then grow to dominate it entirely. "Monopolists can afford to think about things other than making money," Thiel stated. "Non-monopolists can't."[9]

Thiel was an early mentor to Mark Zuckerberg, the Facebook founder and CEO who at one point embraced a corporate tagline – "move fast and break things" – that came to epitomize the unapologetic hubris of tech's platform age.[10] It also is blunt shorthand for the startup creed that has ruled Silicon Valley since its space-age beginnings: develop products quickly, grow markets fast, and cash out.

Tech profits have attracted new investors with comparably high expectations for rapid growth and generous returns. Quantitative easing by the U.S. Federal Reserve during the 2010s contributed to enormous sums of money sloshing around the global financial system and landing in the American technology sector.[11] In 2021, VC-backed deals in U.S. firms totaled $335 billion, $250 billion of which came from nontraditional sources. As they courted new money, tech founders made a familiar pitch: By investing in us, you not only will get rich. You'll make the world a better place.[12]

It is frustrating to observe the constant invocation of prosocial values in the home of what longtime venture capitalist John Doerr once labeled "the largest single legal creation of wealth we've witnessed on the planet," whose executives have done relatively little to alter products and business models with documented social harms.[13] It is disturbing to hear the truncated vision of democracy and society that so many of tech's most powerful hold, a worldview that spills out in self-important blog posts, declarative tweets, and the writings of those they admire.

"When we look at the astounding violence of the democratic era," observed self-styled "neoreactionary" Curtis Yarvin in 2007, "it strikes me as quite defensible to simply write off the whole idea as a disaster, and focus on correcting the many faults of monarchism."[14] Even those less inclined to declare democracy dead are still willing to declare institutions of democratic governance useless. "Tech has been propping up all other sectors including the institutions that have lost all civic and public trust," wrote Andreessen Horowitz partner Katherine Boyle in early 2022. "It's now easier to solve critical national problems through startups."[15]

All this raises a question applicable to corporate realms beyond tech as well: if executives and investors define the purpose-driven firm, will their definition be capacious and democratic enough to effect meaningful change?

A third point of friction comes from tech's *practices of corporate governance and tight founder control*. Such structures determine a firm's capacity to constructively engage in policy, civic integrity, and meaningful regulatory change.

In Silicon Valley's first tech generations, investors and board members often demoted or replaced a company's technical founders with more seasoned executives – "adult supervision" – to lead a firm as it matured. The model's most notorious breakdown began at Apple in 1985. Company leaders, grown tired of Steve Jobs's ego and insubordination, fired him from the company he founded. Eleven years later, Apple hired Jobs back, where he led the company from near-bankruptcy into a golden age of product innovation and stratospheric profits.

After that comeback, Silicon Valley's long-standing predilection for iconoclastic young founders solidified into something of a cult. Companies like Amazon, Google, and Facebook adopted dual-class stock structures that gave founders singular authority over corporate direction and purpose. This was not an unseemly power grab, Brin and Page argued as Google prepared to go public in 2004, but "designed to protect Google's ability to innovate and retain its most distinctive characteristics."[16]

Founder-centric structures present excellent opportunities for leaders to act morally. Yet here again their understanding of moral purpose departs from how we authors might define it. As war raged in Ukraine in early 2022, CEOs like Zuckerberg and Google's Sundar Pichai outsourced the fraught navigation of geopolitics to deputies and focused their energies on what they considered to be their most important contribution to global betterment: developing and delivering new products. In the war's fourth week, Zuckerberg traveled to a tech conference to talk up the "metaverse" while Pichai gave a fulsome business-magazine interview declaring artificial intelligence to be "as important or more than fire or electricity." Meanwhile Elon Musk, CEO of Tesla and SpaceX, embarked on a hostile takeover of Twitter that involved misinterpretations of the First Amendment, careless disregard for SEC regulations, and at least one poop emoji. Building tech is what these leaders know; building and rebuilding societies and democracies is daunting, messy, and complex.[17]

If corporate actors cannot take the lead in their reinvention, from where will the "moral firm" come? Tech history – and the history of industrial capitalism more broadly – indicates that it most likely will come via government regulation, formulated without influence or capture by the industries to be regulated.

Silicon Valley leaders have argued that regulation will slow innovation, lessen American competitiveness, and unduly constrain the entrepreneurial energy that made tech great. This misreads history. The U.S. government has been a constant presence since before the Valley produced its first microchip. Commercial tech products sprang from a foundation of immense government investment in basic research and education in the early Cold War. The extraordinary growth of the sector since the late 1970s came in part from the concomitant neoliberal turn in governance, as tax cuts and deregulation created a smooth runway for corporate expansion. Shrinking public programs and services left a civic vacuum that firms filled with new markets. Through the 1980s and 1990s, bipartisan enthusiasm for tech fueled further tax expenditures, public financing of online infrastructure, and deregulation of telecommunications and financial markets.

A lightly regulated environment allowed tech to prosper, but now the sector and its leading companies are so big, they are failing. They fall short not on the metric of shareholder value, but in social responsibilities that corporate bigness entails, especially for firms whose success has relied so heavily on public policy, whether or not their leaders know or acknowledge it.

Tech firms have been wildly successful at what they set out to accomplish. The industry's reach and the immensity of its fortunes, corporate and individual, tempt us to treat these entities like small nation-states and imbue them with public and philanthropic purpose. Firms should indeed be held to a higher standard. Yet, as it was in a Gilded Age dominated by railroads, oil, and steel, the path to the "moral firm" most likely will come not from within the corporation, but from popular politics and regulatory action outside of it.

ABOUT THE AUTHOR

Margaret O'Mara is Professor of History and the Scott and Dorothy Bullitt Chair of American History at the University of Washington. Her most recent book is *The Code: Silicon Valley and the Remaking of America* (2019). She is an author of the widely used U.S. history textbook *The American Pageant* and is an editor of the Politics and Society in Modern America book series at Princeton University Press. She has also written for such popular publications as *The New York Times*, *The Washington Post*, *WIRED*, and *The American Prospect*.

ENDNOTES

[1] David Packard, Speech to Supervisory Development Program, Hewlett-Packard, Palo Alto, California, March 8, 1960, box 2, folder 39, Packard Speeches, Agilent History Center, Santa Clara, California. Hewlett-Packard re-formed as HP in 2015.

[2] Treybig quoted in Adam Smith, "Silicon Valley Spirit," *Esquire*, November 1981; and Steve Jobs presentation, ca. 1980, gift of Regis McKenna, catalog number 102746386, lot number X2903.2005, Computer History Museum, Mountain View, California. Incidentally, both men had previously worked at HP: Treybig as a marketing executive, and Jobs as a middle schooler who got an internship after cold-calling cofounder Bill Hewlett to ask for some spare parts. See Margaret O'Mara, *The Code: Silicon Valley and the Remaking of America* (New York: Penguin Press, 2019), 186, 253.

[3] More than twenty years and over $1 trillion in market capitalization later, the page remains live on Google's corporate website. See "Ten Things We Know To Be True," Google, https://about.google/philosophy (accessed March 15, 2022).

[4] Rebecca Henderson, "Moral Firms?" *Dædalus* 152 (1) (Winter 2023): 198–211.

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[6] Ken Auletta, *Googled: The End of the World as We Knew It* (London: Penguin Press, 2010), 20.

[7] Carolyn Chen, *Work Pray Code: When Work Becomes Religion in Silicon Valley* (Princeton, N.J.: Princeton University Press, 2022), 85.

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