

The Problems and Promise of Hierarchy: A Sociological Theory of the Firm

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### **Abstract**

We develop a sociological approach to the question of why the firm dominates the capitalist economy, as motivated by the following conundrum: On the one hand, the firm is intrinsically hierarchical, and the exercise of hierarchy tends to be alienating, thus undercutting the motivation of employees; but on the other hand, firms appear to have a distinctive capacity for eliciting identification, thus increasing employee motivation and enabling the achievement of remarkable feats of collective performance, and such cases strong identification tend to be associated with the suppression of hierarchy. The implication is that firms should be rare and nonhierarchical forms should predominate. Our proposed solution involves three claims. First, the firm is uniquely capable of governing production tasks that involve high reciprocal interdependence (i.e., within modules; Baldwin 2007) over time. Second, the advantage of the firm in such contexts is that the rights hierarchy that defines the firm allows it to become a long-lived “person” that is distinctively reliable and accountable (Hannan and Freeman 1984; Kreps 1990), with the hierarchy of “voice rights” – i.e., the right to speak publicly on behalf of the firm (Zuckerman 2010)-- playing the crucial role. Third, we contend that control of voice gives the firm two necessary (if insufficient) ingredients—to broadcast consistent messages about collective identity; and to make credible commitments to suppress hierarchy (Miller 1992, Gibbons and Henderson 2012) -- for eliciting strong identification with the collective enterprise. Our theory thus addresses why firms are ubiquitous and why they range from cases that are marked by alienation and perfunctory performance to cases of strong identification and consummate performance.