Corporate Ownership, Purpose, and the Social Choice Problem

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June 9, 2026

Abstract

Firms face social choice problems whenever the participants on whose cooperation they rely hold incommensurable values. We discuss how owners occupy a distinctive dual role in this context: they are both participants with values of their own and the arbiters that determine how social choice problems are resolved. Corporate purpose is one important instrument through which owners exercise this authority. By committing the firm to problems they aim to solve, purpose restricts the domain of preferences the firm must reconcile and signals a preference ordering to employees and other participants. The firm's composition is a second instrument. Because firms can alter their membership through hiring and termination, owners assemble coalitions whose values sustain the chosen purpose, constrained by employees' capacity to exercise voice or exit. This chapter therefore expands corporate governance beyond mitigating agency issues by describing its central role in framing how firms resolve their social choice problems.

Firms are problem-solving institutions that provide the coordination required to solve complex problems—problems that markets are less suited to resolve on their own (Nickerson & Zenger, 2004). In this context, corporate purpose can be considered as the problems that firms choose to address and how they will be solved (Gartenberg & Zenger, 2023). As firms scale and increase in complexity, however, they face a fundamental challenge: aligning the preferences of the diverse actors engaged in this problem-solving. These preferences are not only monetary or instrumental in nature but also reflect the deeper values held by these actors (Bénabou & Tirole, 2026). As a result, the central challenge of the firm is not only to coordinate knowledge and to align incentives, but also to align divergent values among the actors on whose cooperation the firm depends.

This challenge is particularly acute because many organizational considerations cannot be translated cleanly into a financial numeraire. Take the example of an artificial intelligence lab that considers safety and alignment important factors influencing both social welfare and long-run value, as are speed and flexibility. A dispute over whether safety should constrain either of those is also a dispute over what the organization ought to do and cannot be addressed using financial logic alone.

This is the central problem of social choice theory. Arrow's Impossibility Theorem (Arrow, 1951) formalized the difficulty of aggregating incommensurable preferences into a coherent collective ordering without violating reasonable fairness conditions. While the insight is usually applied to societies at large and public decision-making, firms internalize this difficulty when they require cooperation among participants who hold different values. Corporate governance therefore has a broader role than the standard agency view suggests. In addition to monitoring and rewarding agents, it is responsible for resolving contested social-choice problems that underpin many important decisions by organizations.

Owners play a dual role for firms in this context. First, they are the ultimate arbiters of organizational social choice, as holders of the rights to determine which problems the firm will solve and how it will pursue solutions to them. In doing so, they therefore influence and enable the firm's commitments to purpose (Gartenberg & Zenger, 2023). Second, they are also participants themselves with values to be aggregated with others (Bolton, Ravina, & Rosenthal, 2020; Hart & Zingales, 2017). This dual role has implications for how corporate governance shapes the social choices of their organizations. This relates to a burgeoning set of work that aims to deepen our understanding of purpose and ownership in the modern era (Amis, Barney, Mahoney, & Wang, 2020; Foss et al, 2021; Mahoney, 2023).

Purpose as Commitment to Problems and Solutions

Theories of the firm often focus on gains enabled within organizations relative to markets. Firms exist when production requires actions that markets cannot contractually enable as easily. Research building on this foundation then explores how firms organize people and complementary assets under shared authority to induce these actions. This approach logically leads governance research to focus on incentives and monitoring to understand the effectiveness of different modes of organizing.

Yet these approaches presuppose some objective function that guides which actions are desirable. In reality, "owner value maximization," even if desired, is underspecified as a coordinating function. As such, a firm must choose what problem it will organize around (Felin & Zenger, 2014; Nickerson & Zenger, 2004). This selection is rarely made solely on financial grounds; it often requires adjudicating among competing principles that either cannot be valued simply or resonate with participants' deeply held values. A firm that devotes itself to safer artificial intelligence espouses a theory of what is problematic in the world, while a firm that devotes itself to flexible safeguards espouses another. Each problem implies different solutions, and each solution resolves tradeoffs differently from the other. Purpose expresses this selection as a public commitment to what the firm, as an aggregate entity, values and how it will act going forward (Gartenberg, 2023; Gartenberg, Prat, & Serafeim, 2019; McGahan, 2023). Purpose therefore does more than motivate employees or create an external brand to appeal to like-minded customers. It transforms a common problem into an organizational commitment. This commitment signals to participants what the organization values and how it will adjudicate tradeoffs in the future.

In this way, purpose serves as a mechanism to resolve social choice problems in organizations. Rather than aggregating all values neutrally—an approach that Arrow (1951) and Condorcet (1785) cautioned leads to irrational choices—it prioritizes some arguments over others. In doing so, it also influences who joins the firm: employees select into organizations whose purpose commitments resonate with their own values (Gartenberg & Zenger, 2023). Over time, a sustained purpose can also have a treatment effect on employees: aligning them by providing a shared understanding of the collective impact of their work.

This mechanism is valuable precisely because value conflicts are difficult to settle through ordinary aggregation. When preferences are rooted in different worldviews, more information or monetary compensation will not necessarily resolve the disagreement. The firm therefore needs an authoritative commitment to what it is trying to solve, and a well-defined and credible purpose can serve as that commitment.

Ownership as Social Choice Authority

The corporation's owners determine who has the authority to define and enact purpose. Corporate governance is commonly understood through a principal-agent lens (Jensen & Meckling, 1976). Owners appoint boards to monitor and reward managers on behalf of owners. Managers then align employees with the firm's objectives through incentives, contracts, and supervision. This view has generated powerful insights into accountability and control. It also assumes that the firm's objectives are straightforward to specify, and that the challenge is alignment around those goals, rather than the goals themselves.

The social choice view acknowledges that specifying goals is far from trivial in practice, as it entails aggregating divergent beliefs among participants. When participants disagree, the governance structure determines whose values are prioritized during the aggregation process. Ownership matters because it shapes the governance structure: owners hold formal rights to select directors and shape the strategic direction of the firm (Foss et al., 2021). These rights effectively make owners the institutional means of determining social choice within firms.

Owners are arbiters in three related ways. First, they influence the agenda. They help determine which problems the firm treats as worthy of attention. Second, they influence the solution space. They shape how the firm approaches solutions to the selected problem, including navigating countless tradeoffs that may have conflicting claims. Third, they influence the durability of commitment by protecting purpose over time.

The point is easiest to see in firms whose purpose is explicit, but the logic also applies more broadly. Every firm organizes around a theory of value (Felin & Zenger, 2017), with some theories simple and financially expressed and others with a moral valence. Even when firms claim to maximize value, decisions must be made that involve conflicting principles, such as about differing potential externalities and acceptable means. Ownership shapes those decisions by determining who has the right to impose an ordering when no neutral aggregation is available.

Ownership and the Employee Coalition

Social choice theory provides important insights for situations in which owners and employees disagree. A value appropriation lens treats conflicts between owners and employees as centered on the shared surplus created in the pursuit of the firm's objective. In contrast, a social choice frame treats the objective itself as the locus of conflict, where the conflict reflects values that are incommensurable with others'. In this context, ownership is the authority that resolves these conflicts into choice at the organizational level.

Owners exercise this authority first through agenda control. In politics, agenda setters shape outcomes by deciding which alternatives receive consideration (Romer & Rosenthal, 1978). In firms, owners—with managers as their proxies—shape the agenda by determining which problems the organization will treat as legitimate candidates for action. A controversial new use of a technology enters the firm's consideration set because governing authority allows it.

Purpose provides the frame for this agenda by articulating the core problem that motivates the firm. Social choice problems become unstable when decision processes accept any possible preference ordering (Arrow, 1951; Sen, 1970). Firms effectively restrict this ordering through purpose enabled by owners. For example, a firm committed to trusted local news restricts the choice domain differently from a firm committed to audience mobilization. As such, purpose simplifies the choice problem by narrowing the domain across which preferences must be aggregated.

Their authority to do so is not unconstrained, however. Employees may not possess the same formal authority as owners, yet their preferences matter insofar as their participation helps the firm meet its goals. An employee who rejects the firm's ordering of ends may exercise voice or leave (Hirschman, 1970), which, in turn, can constrain owners. When the employee is easily replaced, owner authority remains broad. When the employee holds scarce knowledge or professional judgment, the right to exit constrains the firm's ability to enact its chosen purpose. In that setting, owners can declare a decision formally but still struggle to sustain the coalition needed to carry it out.

Owners can respond to this exit threat by shaping the firm's membership. In social choice research in public domains, the electorate is generally treated as fixed. In contrast, firms can alter the relevant population through hiring and termination. Owners can reduce the social choice burden by building a coalition whose values align with their own so that the feasible social choices are desirable from the owner's perspective. Owners settle disputes over the firm's ends, and those settlements shape who remains available for future disputes. A clear purpose can produce a committed employee coalition because the firm gives a clear answer to what it exists to do, but it can also narrow the labor pool. A broad purpose can hold together a larger group, but it may leave more conflicts for owners and managers to settle later.

The owner's responsibility is to define the purpose such that the firm can enact a viable coalition with incommensurable values. Ownership transitions are important to interpret in this context because new owners can alter the rules by which future social choice problems will be resolved. Employees may rightly or wrongly infer that new owners will apply a different weighting to resolve social choice issues.

This perspective provides a different view of the owner–employee relationship. Beyond being the principals in an agency relationship, owners also hold authority over the firm's ordering of problems and solutions. Employees choose to participate, conditional on ordering.

Dynamics and Social Choice

Managing social choice processes is by nature a dynamic process. A clear purpose attracts employees and investors who accept the firm's ordering of ends. It also discourages those who would reject that ordering. Over time, sorting can reduce internal preference heterogeneity. The firm becomes more capable of acting because fewer foundational conflicts arise. Sorting then also leads to differentiation across firms. Companies in the same industry may face similar tradeoffs and choose different resolutions. One news organization may rank editorial independence above audience mobilization. Another may define mobilization as part of its civic purpose. The firms are not merely choosing differentiated positions; they are ordering competing claims differently and, in doing so, attracting different coalitions around them.

Purpose drift occurs when the settlement loses institutional support. This outcome can happen as the firm grows or as founders depart and owners change. It can arise because the population whose preferences must be aggregated has changed. It can also arise because the authority once capable of closing conflicts weakens. Activist investors can challenge the existing ordering of ends.

Thus, owners have a dynamic role in shaping the conditions under which preference aggregations change. The firm's task is to sustain enough stability for commitment and enough openness for agility.

Conclusion

Firms face a social choice problem when participants fundamentally disagree over the ends of collective action. Purpose provides one way to address this challenge by committing the firm to particular problems and potentially solutions. Ownership is the authority underpinning this commitment: it determines who can set the agenda, restrict the domain of admissible choices, and resolve conflicts when no neutral aggregation rule can do so reliably.

This reframes corporate governance. Beyond monitoring and rewarding agents, governance shapes the firm's social choice contract. Social choice theory thus expands our view of both purpose and ownership: purpose is a mechanism for selecting and aligning participants with incommensurable preferences, and owners hold the authority to shape that purpose and, more broadly, how those incommensurable preferences will be aggregated into action at the organizational level.

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